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Settling the size of the Fourth Plan—Honours Uneven ?

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Planning from Year to Year

WHAT IS important in the compromise reached in the Planning Commission on the question how the level of government outlay on development is to be determined and how it is to be phased over the five years beginning with 1969-70 is, of course, not that it has saved Mr D. R. Gadgil's face for him, but that it has struck a blow against adventurist economic policies.

It is true that there has been nominal agreement on a fourth Plan supposedly involving an outlay of Rs 14,800 crores in the public sector and an unresolved resources gap of at least Rs 5,500 crores, but the really operative part of the settlement surely is the emphasis now placed squarely on framing the annual plans in accordance with visible resources. The fourth Plan, in other words, has been postponed for the time being, without the government being prepared to say so in so many words. In this context, it is significant that the outlay on the central sector in the annual Plan for 1969-70, which would be the first year of the fourth Plan so-called, is to be of the same size as in the current year.

It is clear enough now that Mr Morarji Desai has won hands down. He has carried his point that neither the economy should be firmly committed in advance to a schedule of public sector outlays over the next five years which may not be sustained by the quantum of resources that can possibly be raised without risking inflation or a slowing down of economic growth, particularly industrial expansion. In the process, he has also successfully maintained his position that the central government should not be committed *a priori* and without sufficient thought to a fiscal programme for raising additional tax revenue which may run counter to the requirements of the current phase of economic recovery and its consolidation. In the circumstances, there is no need for such of us as rightly value the importance of combining growth with stability to be unduly upset by the abstract figure of Rs 14,800 crores which is shown in the present compromise as the notional aggregate of public sector outlay to be aimed out over the next five years. What really matters is that the actual quantum in this respect will ultimately be settled in terms of and through the discipline of the five annual plans.

It may be emphasized here that the annual plan will necessarily have to be framed with a perspective not limited by its own current 12 months. After all, much of the resources which are to be mobilised for investment during, say, 1969-70, would have had to be generated earlier and in this sense the situation of the economy in 1968-69 is also relevant to the framing of the annual Plan for 1969-70. In a similar way, the development expenditures planned for and undertaken in 1969-70 will have to be related to the economic prospects of 1970-71; otherwise, projects or programmes may be started in 1969-70 without reasonable assurance of their not being stalled in 1970-71. Thus, even the annual plans would clearly demand that the

economic policies or strategies through which they are to be implemented do keep in step with trends and movements in the economy. It follows that the emphasis which is now going to be placed on annual plans need not and should not be allowed to come in the way of the continuity, coherence and coordination which are essential to the smooth progress and success of organised development activity.

Of the probable dimensions of this development activity in the coming years there is no reason as of now why a moderately cheerful view should not be taken. It is, no doubt, obvious enough that economic growth is not going to shoot up in any spectacular fashion in the coming years immediately ahead. At the same time, enough basic progress has started taking place in agriculture for the hope to be justified that the poverty, backwardness and the social and economic rigidities of this sector, which have been so heavily weighing on the impulses of growth, will start becoming less burdensome. In industry, there has been a partial recovery from recession and while much lost ground is yet to be recovered, there is an unmistakable change in mood in the private sector. Mr G. D. Birla, for instance, spoke recently of demand picking up in some of the depressed industries and the resumed opening up of opportunities for industrial expansion and the starting of new industries.

The wholesome attitudes struck by the Deputy Prime Minister and the Finance Minister with regard to such matters as the need for restraint in additional taxation, which is, of course, part of the new spirit of realism and responsibility which has been asserted in framing the strategy of the fourth Plan, should assist the private sector in putting its best foot forward. A good deal, however, would depend on the government's willingness and ability to withdraw progressively restrictive regulatory measures and processes, while simplifying procedures and improving the administration of such controls as may remain. We wish we could say that the trends here are in the right direction. Unfortunately, there still remain large elements of ambivalence, equivocation or indecisiveness in the administration's thought, word or deed. It is these avoidable government-made obstructions which must cause concern rather than anything that may be said or settled at Yojana Bhavan about targets or outlays of the fourth Plan.

Prices under Control?

WITH THE prospect of bumper food and cash crops being harvested for the second season in succession, it will be interesting to find out what exactly is the impact of a higher level of agricultural production on the price structure and to what extent the economy has benefited by a containing of inflationary pressures and an increase in the purchasing power of the rural population. The most striking feature of the developments in the commodity markets in the past two years relates to the reversal of the upward trend noticeable in the 'sixties in the index of wholesale prices for all commodities. From 127.50 (base : 1952-53=100) in 1960-61 there was an uninterrupted rise to 202.90 at the end of 1966-67 and to 224.10 in October, 1967. It is interesting to note that the increase in the index for all commodities in 7½ years by nearly 75 per cent was mainly due to the fantastic rise in the index for the food group which by October, 1967 stood at 265.30 as against 118.10 at the end of 1960-61. For the first time since the second Plan period there was a drop in the index for all commodities to 200.60 at the end of 1967-68 from 202.90 at the end of March, 1967. It is necessary to point out here that the net decline was achieved after the upward trend had persisted till October, 1967.

Thereafter the levels of prices for many commodities are tending to get stabilised and except for raw jute which has been unfortunately affected by a serious shortage due to unfavourable weather conditions and a diversion of acreage, no violent changes have been recorded. The question may well be asked now at what levels the prices for food and cash crops should be stabilised and in what directions special attention should be given to overcome shortages or inadequacies that still exist. In the past few months many jeremiahs became vocal when the index for all commodities started moving up again and touched the high level of 221.90 at the end of September, 1968 and the food group also was higher at 250.80. This was due to the fears that the drought conditions and the havoc caused by floods in several parts of the country would result in a serious decline in agricultural production and inflationary pressures would again assert themselves. Happily, these fears have not materialised and the downward trend has been resumed. During the week ended November 16, the index for all commodities had come down to 212.50 and that for the food group to 229.80. In the corresponding week last year, the indices for the two groups stood at 213.70 and 244.30 respectively. The absence of a more pronounced decline in the general index in the past year is due to the fact that many manufactured goods have become costlier on account of increased wages and costlier power and transport charges. What is important from the point of view of chartists is the fact that the peak levels touched on October 14, 1967 have not been pierced and there is actually apprehension at the present moment about unremunerative prices being realised for raw cotton and oilseeds and unattractive levels being touched by pulses and coarse cereals.

It has not been possible so far to estimate precisely what will be the size of food and cash crops and whether it will be necessary to intensify procurement operations in the coming months in respect of wheat and coarse cereals. But official and trade estimates of food production do not disclose any wide divergence and it is confidently expected that the total yield of food crops will not be less than 95 million tonnes, very nearly equal to the record of 1967-68. The yield of raw cotton in 1968-69 is anticipated to be more than the output of the last season by even 500,000 bales while the earlier fears about a serious short-

fall in the production of oilseeds have been belied. Raw cotton prices have registered a significant decline in the past few weeks while oilseeds are being quoted again at low levels, the speculative rise in recent months having been fully wiped out. If the *rabi* crops also prove to be satisfactory it will be reasonable to expect that by March, 1969 the index for all commodities will register a new low level and for nearly 18 months, a fairly stable level of prices would have been ensured.

The developments in March-May this year should be interesting as it is during this period that there will have to be an intensification of procurement operations relating to wheat and coarse cereals and the full impact of two good agricultural seasons will be felt on the price structure and on the supply situation. If after a close study of the new factors that have been responsible for bringing about the breakthrough in the agricultural sector, it is possible to say that a reasonable level of agricultural production can be ensured, even under difficult conditions, the government can be confident of keeping under check inflationary pressures if there was an attempt to increase plan outlay in 1969-70 in pursuance of the demand by the state governments for larger assistance for plan schemes and for a big increase in total outlays. The inflationary pressures noticeable in the past decade have been mainly due to violent fluctuations in agricultural production and any additional demand for consumer goods, under the altered circumstances, can be met through a better utilisation of the capacity of the existing industries. It will not, therefore, be incorrect to say that with a strengthened agricultural economy a good base has been laid for implementing an ambitious fourth Plan.

As a result of the pick-up in agricultural production and a slight revival in industrial activity, the national income rose by over nine per cent in 1967-68. There may be a further improvement in 1968-69 by five to seven per cent resulting in an additional purchasing power, in constant terms, of the people by over Rs 2,000 crores in two years. This improvement in national income has been helpful in displacing imports of agricultural commodities to a significant extent and in reviving the demand for many consumer goods. The saving on account of displacement of imports and the scope for increasing exports have been responsible for a contra-seasonal increase in foreign balances, as the Governor of Reserve Bank of India pointed out recently. If the process of import substitution could be hastened and the boom in exports noticeable latterly could be sustained there is room for cautious optimism about the immediate outlook.

Preparing for Containerisation

THE RECENT seminar on containerisation in Bombay, was a significant event. It is for the first time in this country that this subject has been considered by all the concerned interests, as Mr L. N. Birla, chairman of the All India Shippers' Council (AISC), said in his presidential address on the occasion. The AISC has special reasons to feel gratified about this, inasmuch as the seminar happened to be in response to a suggestion in this behalf made by the Council itself in Madras early last year to Dr V. K. R. V. Rao, union Minister for Transport and Shipping. And Dr Rao too must have been happy that the seminar could be held so soon, thanks to the concerted efforts of the Director-General of Shipping, the Shipping Corporation of India, the Indian National Shipowners' Association and the All India Shippers' Council. Surely all this connotes the beginning of dynamic thinking in the field of transport, as Mrs Sumati Morarjee of Scindias put it.

The biggest challenge that so far-reaching a change as containerisation has to meet, especially in a developing country with a heavy backlog of unemployment such as ours, is one of attitude. "The first pre-requisite of any change", as Mr Birla aptly described, "is a change in attitude; without such a change the process of change will not be smooth". It is, therefore, gratifying to note from the several speeches made on the occasion that there is complete awareness of this on all sides. The union Transport Minister and Mr Birla, as also Dr Ramaswami Mudaliar, chairman of the Seminar Reception Committee, made pointed and particular references to this aspect, and these should satisfy even Mr S. R. Kulkarni, President of the All India Port and Dock Workers' Federation, who chose the eve of the seminar to warn the government, the shipowners and the employers of dock workers, including the port authorities, "not to force containerisation unless all aspects relating to it, and particularly the consequences of its introduction on national economy and port labour, are fully considered". This stand is not unreasonable, but there are some who tend to consider the problem from only a particular angle as, for instance, the international team of exporters who recently reported on the major ports of this country. According to them, "with the possible exceptions of Bombay and Calcutta, the volume of general cargo susceptible to containerisation at any of the ports is simply insufficient to economically justify such service." This is bad enough but they also opined and it is not known what their basis was for such a view· that there is little possibility that any of the major Indian ports will

be required to accommodate full container ships over the next seven to ten years! So it required both Mr Birla and Dr Rao to expatiate on whether our country can do without containerisation and drive home the point that, in the highly competitive world we live in, we have no alternative but to keep pace with the technological developments abroad if we do not want to see our goods become uncompetitive in the world markets. Even with freights as they are today, the competition from developed countries, by reason of several other advantages they enjoy over us, is keen and stiff enough in all conscience, and this position is bound to become worse after they have taken to containerisation in a big way as they have begun to, in that one of the justifiable claims made for containerisation is the significant reduction in freight rates that it leads to. Mr Birla also made the point that, if our international trade declines, it would become difficult to maintain even the present labour force at our ports.

In his welcome address, the pragmatist that he is, Dr Ramaswami Mudaliar pleaded for a rational approach to the problem and, while not discouraging those who wish to usher in containerisation, he referred to the *pros* and *cons* of the problems, in particular the heavy capital investment that it entails. Even he must have been impressed with the depth and clarity of Dr Rao's inaugural address on the subject. The Transport Minister left no doubt in the minds of the large audience, comprising not only the concerned interests in the country, both official and non-official, but representatives of UNCTAD, ECAFE and other international bodies as well, that this country must start thinking in terms of containerisation, and it is in this context that he welcomed the seminar as offering an excellent opportunity to every participant to exchange views and discuss various issues involved so as to provide a better insight into the problem of introducing containerisation in our shipping against the background of our situation and our special requirements. To clinch the issue so to say, he wanted the participants to bear in mind, while deliberating over these problems, what had been happening around us even in our immediate neighbourhood. To quote Dr Rao, "a big container port is being developed at Singapore. Matson Line has already indicated plans for extending its US-Japan container service to South Korea, Hong Kong, the Philippines and, possibly, south-east Asia. Nearer home, port of Colombo has announced its decision to develop container facilities." As the Minister himself added, one need not have much imagination to realise the implications of these developments to our trade and our ports. So it does not seem wise to dismiss Dr Rao and more enthusiastic shipowners who have been urging the need to give this question immediate attention. By their insistence they, even like the seminar participants, have done a distinct service to our exports, nay, to our economy.

Dr Rao justified his claim as a great believer in the irresistible mark of science and technology and its particular reference to ports and ships in this country, in his address which bore the imprint of his close study of the subject of unitisation of cargo in the liner trade, his personal visits to many major container ports of the world and his discussions with those concerned about containers at work. He drew the attention of the participants to the following important points : The emerging fact of the technology of marine transportation and its impact on our international trade; the drastic overhaul in shipping, port and trade practices involved in containerisation and ways and means of tackling this; susceptibility of liner cargo in our trade for containerisation; preparing our ports for unitisation and the heavy capital investment involved therein; consideration of alternative forms of unitisation to containerisation--palletisation and pre-slinging--with particular reference to our trade patterns and resources; evolving methods and charting a course of action so as to keep the capital investment, particularly in the initial stages, to the barest minimum; and labour problems arising from containerisation and their solution.

To most of these, Dr Rao provided convincing answers, and the seminar deliberations also disclosed the participant's awareness of the several complexities involved in containerisation, as also the willingness of those concerned, officials as well as non-officials, to face them. Perhaps the most heartening feature was the assurance of the representatives of the customs department that they could devise--many had serious apprehensions about this--appropriate arrangements for the handling of containerised traffic as and when it came. Taking all factors into consideration, it would appear, those interested have come to the conclusion that our country must go in for containerisation, although in a limited way and on a phased basis, and should make a beginning with one port. In such an event, the obvious choice, of course, is the port of Bombay.

Eastern Economist 25 Years Ago

JANUARY 7, 1944

To a country which has not yet shaken off its political dependence, planning by an irresponsible government is only a synonym for more efficient rule, although it cannot be expected that the full economic potentialities of the country would be developed by such a government. To such a country the attainment of political freedom is necessarily of first priority. But even in a country which is free from the political domination of another country, a planned economy may possibly impose a degree of regimentation by a bureaucratic machinery which will render nugatory freedom for the great masses of its citizenry. The advocates of the liberal economic system have argued that the planned economy is both antagonistic to political freedom and, from the economic aspect, is inefficient and wasteful. The school of economics under the leadership of Prof. von Mises indeed tried to demonstrate that a planned economy because of its gigantic dimensions and interrelated complexities, is beyond human capacity to organise successfully and is bound to be incomparably inefficient. Even those who were before the war doubtful about the results of economic planning in Russia, have been impressed by the amazing strength and resiliency which the Russian economic system has shown under difficult war conditions. Whatever be the advantages of freedom and initiative and the market mechanism in the capitalist economy, the planned economic system has one decisive advantage over the former. In the planned economy, after the initial period, almost any percentage of national income can be devoted to capital formation and consequently, apart from considerations of trade cycles in the laissez faire system, the planned economy can provide for a much higher rate of economic development. In the capitalist economy the rate of economic development has averaged barely three or four per cent while in Russia, in spite of the enormous burden of armaments, it has been as high as 14 or 15 per cent.

End-of-term Report on the Cabinet

THE EDITOR

WITH APOLOGIES to the reader for adopting a familiar journalistic trick of the season, I proceed to present a progress report of sorts on the central cabinet.

Indira Gandhi : Was put to school rather late, after taking a correspondence course conducted by her father; insists on sitting in the first seat in the front row; should be more interested in home work, but has the excuse that she is distracted by the whispering and murmuring going on in the kitchen; rather talkative, but means no harm or, indeed, anything; is suspected of having a mind of her own, but only when it comes to matters like choosing where she would live; not uniformally popular among her classmates and is frequently accused by some of them of trying to play one against the other ; has made considerable progress in arithmetic, thanks largely to her habit of constantly counting the days since she came to school; likes to learn world geography at first hand; seems to have a charitable disposition since she regularly expresses distress over the poverty in her country.

Morarji Desai : Could be persuaded only with great difficulty to occupy the second seat in the front row; reported to be finding it not too easy to settle down; appears to be on speaking terms, but no more, with his neighbour on the right and is also said to be given to speaking out; should soon be reaching the school-leaving age; meanwhile, he does appear to be younger in body and mind than some of his classmates who may be younger in years; is accused by his detractors of trying to make up by faith what he lacks in imagination and by the courage of his convictions what he lacks of information; a person, undoubtedly, of clean and simple habits and somewhat inclined to leave things to God; not widely liked perhaps, but, on the whole, highly regarded; he should, however, stop pretending not to be asking for money when caught stretching out his hand for it.

Yashwant Rao Chavan : Looks a tough guy and, therefore, often wants to act like one; actually given to careful, even timid, reckoning of chances and is not known to gamble; said to be ambitious and anxious to reach the top of the class but would rather have others help him on his way than put a rash foot forward; is linked too closely for his comfort with the part of the country he comes from and is the cause of much merriment, innocent or otherwise, among his fellows, thanks to his foible of having himself surrounded with pictures and figurines of a certain historic character with whom he is suspected of identifying himself; otherwise a balanced person, reliable in difficult situations, provided he happens to find reliability rewarding.

Jagjivan Ram : Has been in and around the school for donkey's years; consequently, special arrangements have been made for his permanent presence; a good example of intelligence and experience profiting from each other; has many interests, the chief of which is himself; has a way with people, friend or foe, but is not one in whom his classmates are too keen to confide; this does not, however, seem to come in the way of his getting to know anything that he needs to know; is credited with a loyal following and all the loyalty seems to be on one side.

Swaran Singh : Another perennial in residence: a jack of all trades who, nevertheless, has mastered some of them, including the art and craft of pleasing the big boys of both sexes; a good student but no scholar; rather clumsy with his hands and therefore, has to be watched in the laboratory—is suspected of having damaged some valuable properties (from Rourkela and elsewhere) by indifferent handling.

This first appeared in The Hindustan Times of December 27/28

V. K. R. V. Rao : Known as a promising pupil for a long time; has a habit of talking even if nobody is listening; has been set to paint lighthouses and play with paper boats; makes a show of enthusiasm, but is convincing only up to a point; has been often caught staring wistfully at the satchels of other boys including...........

Dinesh Singh : A truly precocious pupil; has been receiving double promotions rousing the envy of his fellows; has appointed himself monitor and seems to have got away with it; good at extra-curricular activities; his place in the class is indeterminate and, although formally occupying a seat in the second row, he is mostly found hovering over the first seat in the front row.

Fakhruddin Ali Ahmed : Irregular and unpunctual in attendance —his excuse invariably is that he has been waiting for a small car which is not there; has a liking for kite-flying, but is not very good at it; cheats on his home work, keeps losing his exercise books and is generally indifferent to studies; quite plainly, he seems to take neither pride nor pleasure in what he is supposed to be doing; his manners on the playground are equally unsatisfactory and even his own team-mates often complain that he is dilatory and obstructive; takes part in school debates only when he cannot avoid it and being careless and confused in his ideas, he invariably loses both argument and temper.

Triguna Sen : Undoubtedly the most frustrating student around here; more to be pitied, however, than censured since he is evidently suffering from some weird hallucinations; imagines, for instance, that it is he who is teacher here and his persistent attempt to act out his illusion has led to considerable disorder and demoralization among the teaching staff, nobody seems to know how he came to be here or what to do with him so long as he is here.

C. M. Poonacha : Another problem boy; seems to be ill-starred and is prone to accidents; it is a wonder how he has kept his body and soul together or his limbs intact; not one of Nature's geniuses certainly, but still he could have shown better results under more favourable conditions; as it is, he is apt to be inti-

midated by the bullies in the debating society.

Karan Singh : Likes poetry, especially the line which goes "My face is my fortune, sir, she said"—he is always humming it; to be fair, however, there is more in him than meets the eye; only, he seems to suffer from an anatomical deficiency known as lack of 'guts'; this often results in his being subjected to painful deprivations by his classmates—they recently denied him, for instance, the toy aeroplane he had set his heart on; nevertheless, it is possible to be hopeful about him since all that may be needed to toughen him up is a little rough play in the gymnasium ; with the bad boys in his class planning to snatch his purse, there is every chance of his getting exactly this treatment before he is much older.

Ram Subhag Singh : Was about to be overlooked for, although there is so much of him, so much of it seems to mean so little; sincere, no doubt, and hard working and has pleasant manners; is said to have a rural background, but it is not known whether this is what makes him vegetate; in assignments involving any kind of physical activity, his performance has been invariably poor and often irresponsible; for instance, he cannot be trusted to deliver a letter to an addressee and his behaviour has often given room for the suspicion that he is looking for 'incentives' even for performing his routine chores; his upkeep is proving expensive and the rates have to be raised frequently to meet costs.

Govinda Menon : Has had traumatic experiences in a state called Kerala from which he comes; suffers from nightmares and is also liable to throw a fit at any moment; aspires to become a lawyer and if wishes were horses, he should at least manage to ride this particular donkey (law being an ass) some day.

Jaisukhlal Hathi : A comfortable presence in the classroom, but no help in outdoor sports and games, especially when the going gets rough; will walk miles to avoid disturbing sleeping dogs; has a vast capacity for not noticing things when they go wrong and may conceivably allow the school building to burn down for fear of doing anything rash with the hydrant.

K. K. Shah : A thoroughly disorganized person; has a habit of littering the place with failing newspapers and periodicals; makes a heavy draft on school stationery for printing handbills which he thrusts on all and sundry; does not seem to care that these handouts, as he calls them, promptly find their way to the junk shop; spends his spare time, of which he seems to have plenty, in playing with empty ink bottles, pencil stubs and cigarette butts and claims that, with these trifles, he will succeed in constructing some day a wondrous contraption for capturing from time and space the sounds that have been uttered since the world began; swears in this connection by what he calls 'Nadhabrahmam' which seems to be a esoteric combination of religion and science fiction; claims to be spiritually inclined but managed to outrage the more conservative spirits of the Parents' Association by proposing that the debating society of this co-educational institution should discuss the pros and cons of allowing kissing in our motion pictures.

Satya Narayan Sinha : Was enrolled at the last moment, when admissions were about to be closed; easy-going and no trouble to anybody.

Fundamental Rights

DR A. APPADORAI

OF THE many legislative measures which were considered by the Lok Sabha, which ended its session on December 20, 1968, perhaps the most significant was Nath Pai's bill seeking to restore to Parliament, acting with a two-thirds majority, the power to take away or abridge fundamental rights. I say 'restore' because, until February 27, 1967, when the Supreme Court delivered its now famous judgment, in what is known as the Golaknath Case, placing a ban on the power of Parliament to take away or abridge fundamental rights, Parliament exercised that power; indeed two earlier decisions of the Supreme Court in 1951 and 1964 had upheld Parliament's power to amend the Articles of the Constitution relating to fundamental rights including the power to take them away or abridge them.

To understand the significance of the Bill, certain basic facts about our Constitution have to be grasped.

First, we have a written Constitution; and none of the three parts of the government - the legislature, the executive or the judiciary is sovereign. As the Supreme Court held in its judgment in the Golaknath Case, "no authority created under the Constitution is supreme; the Constitution is supreme and all the authorities function under the supreme law of the land". It follows that the amending body of the Constitution is vested with *legal* sovereignty. The amending power is vested in Parliament, passing a Bill in each House by a majority of the total membership of that House *and* by a majority of not less than two-thirds of the members of that House present and voting; in addition, for some specified subjects which affect the rights granted to the states in the constitution, such as the representation of states in Parliament, the consent of at least one-half of the states expressed through their legislatures is also necessary. The amending process is, in the present writer's judgment, quite a satisfactory one being neither two flexible nor too rigid; it also draws attention to the fact that special attention must be given to the amendment of fundamental things such as fundamental rights. It should be clear that, when members of Parliament claim that Parliament is sovereign, the position is technically wrong.

A second basic fact relevant to the consideration of the subject is that fundamental rights are not unrestricted. The chapter on fundamental rights itself vests in the state the power to impose reasonable restrictions on them. Thus the right to freedom of speech and expression is restricted by the power vested in the state to make any law in so far as such law "imposes reasonable restrictions......in the interests of the security of the state, friendly relations with foreign states, public order, morality......defamation, or an incitement to an offence; the right to form associations or unions is subject to the right of the state to impose "reasonable restrictions" in the interests of public order, and morality and so on. Which restriction is reasonable is, of course, subject to judicial review.

And a third basic fact. An examination of the constitutional provisions shows that there are no expressed limitations on the power of Parliament—with the conditions stated above—to amend any part of the Constitution. The language of the amen-

ding provisions (Art. 368) is perfectly general : "an amendment of this constitution may be initiated" etc.; it empowers the amending body to amend the Constitution without any exception whatever.

From an understanding of these basic facts, we proceed to analyse the issues raised by Nath Pai's bill :

(*i*) What was the intention of the Constitution-makers : to empower or not to empower Parliament—with the majorities already mentioned—to amend fundamental rights? It has been contended that "all the surviving members of the Sub-Committee of the Constituent Assembly on Fundamental Rights hold the view that it was never the intention of the Constituent Assembly to give Parliament powers to derogate from the Fundamental Rights". I suggest this proves nothing. We have pointed out above that there are no expressed limitations on the power of Parliament to abridge fundamental rights. The judges in the 1951 and 1964 decisions mentioned above took the view that Parliament had the power. They considered carefully a *prima facie* implied limitation in Article 13(2) which says that the state shall not make any law which takes away or abridges the rights conferred on the citizen, and any law made in contravention of the clause shall, to the extent of the contravention, be void. But interpreting it judicially they came to the conclusion that that section did not refer to Constitutional laws. For the provision defined the sense in which 'law' is used in it : 'Law' includes according to it any ordinance, order, bye-law, rule, regulation, notification, custom or usage having, in the territory of India, the force of law. It is significant that 'constitutional law' is not included in the definition of 'law'. As the 1951 judgment of the Supreme Court clearly pointed out, had it been intended to save the fundamental rights from the operation of that provision, it would have been perfectly easy to make that intention clear by adding a proviso to that effect. The intention of the Constitution-makers apart, it is a well-recognised principle that no authority such as the Constituent Assembly can bind the successor authorities; the latter should be free to interpret the document as they think it appropriate in public interest.

Conflict with the Supreme Court ?

(*ii*) A second clear issue raised by the Bill is whether Parliament by passing it is likely to come into conflict with the Supreme Court. We suggest not. As has been well said the sphere of the Court is in terms of art, not politics, i.e. the Court's duty is to interpret the Constitution and to decide what, technically, the terms used in it mean; it is not their duty to say what in political terms is desirable. That, I suggest, is clearly the function of a body elected by the people. It should be open to Parliament to come to a decision as to whether it should have the power to amend fundamental rights; such a decision should not be interpreted as showing a disrespect for the judiciary. To say as has been said that by "supporting the Bill, the government is, in effect, giving notice to the judges of the Supreme Court that they must learn to make proper obeisance to Parliament" is, I suggest, to misunderstand totally the place of the judiciary in the Constitution, and the tradition of independence the Supreme Court has established.

(*iii*) If Parliament abuses its power to amend fundamental rights, would it not be a danger to minorities, nay, to democracy itself? The answer to this is contained in the Supreme Court judgment delivered in 1964 :

"It is well settled, so far as ordinary laws are concerned, that mere possibility of abuse will not induce courts to hold that the power is not there, if the law is valid and its terms clearly confer the power. The same principle, in our opinion, applies to the Constitution. If the Constitution gives a certain power and its terms are clear, there is no reason why that power should be withheld simply because of possibility of abuse. If we may say so, the possibility of abuse of any power granted to any authority is always there and if the possibility of abuse is a reason for withholding the power, no power whatever can ever be conferred on any authority, be it executive, legislative or even judicial. Therefore, the so called fear of frightful consequences which has been urged on behalf of the petitioners (if we hold, as we do that the power to amend the Constitution is unfettered by any implied limitations) is no ground for withholding the power for we have no reason to suppose that Parliament on whom, such power is conferred will abuse it. Further even if it abuses the power of constitutional amendment under Art. 368, the check in such circumstances is not in courts but is in the people who elect members of Parliament. The argument for giving a limited meaning to Art. 368 because of possibility of abuse must therefore be rejected."

(*iv*) Granting for the sake of argument that Parliament has no right to take away or abridge fundamental rights, which body will have the power to do so, admitting that rights are conditioned by social responsibility and social necessity, and that a change may be called for at some time or the other? The majority judgment in the Golaknath Case (1967) suggests the convocation of another Constituent Assembly for the purpose. There are, I suggest, two difficulties here. First, if the government of the day calls such a Constituent Assembly, it will have to do so with the consent of Parliament; but Parliament may well claim that it is representative enough and refuse to be a party to calling a Constituent Assembly. Secondly, a fresh Constituent Assembly is unlikely to restrict itself to its terms of reference and it may be tempted to concern itself with other parts of the Constitution. Where then do we stop?

To conclude, the present writer would agree with the principle laid down in the 1951 and 1964 decisions of the Supreme Court, i.e. Parliament has the general power of amending the Constitution, not excluding fundamental rights. Politics is, however, the art of compromise. To meet the view point of those who concur with the majority judgment of the Supreme Court in 1967, I suggest that the Constitution be amended by the Amending Body to provide for a referendum to ratify and change in fundamental rights. The referendum will operate after Parliament, with a two-thirds majority, has approved the proposed change; it is not subject to the difficulties which we pointed out in connection with the convocation of a fresh Constituent Assembly. True, the holding of a referendum in such a large country as ours—and with a largely illiterate electorate—raises innumerable difficulties. But, on balance, it appears wiser to try the experiment. We have, in holding four General Elections (admittedly free and fair) in the country with over 200 million voters forming the largest electorate in any democracy, shown that highly complex, technical problems of finding out the will of the people can be solved successfully; it ought not to be impossible for us to solve the equally difficult problems posed by a referendum.

Looking Back on UNCTAD-II

S. S. M. DESAI

THE SESSION of the second United Nations Conference on Trade and Development (UNCTAD) was held in New Delhi from February 1, 1968 to March 29, 1968. The Conference has gone the way most of the international conferences go these days. Did any one seriously expect substantial contribution from this Conference where the representatives of 132 countries deliberated in 975 meetings stretched over eight weeks? Mr H.D. Shourie, the Director General of the Indian Institute of Foreign Trade, New Delhi, has rendered a great service by bringing out a well-documented book on the proceedings of UNCTAD-II*.

The first United Nations Conference on Trade and Development (UNCTAD) marked a significant step forward in the effort of developing countries to adapt the international trading system to accommodate their interests and needs. The convening of UNCTAD constituted "a momentous milestone in the international effort by people of all nations, scattered on different continents, living under different economic and social systems and at different levels of development, to seek agreement and cooperation in charting a strategy for ending the division of the world into areas of affluence and areas of poverty."

The General Assembly of the United Nations officially designated in 1961 the present decade the 1960's -as the Development Decade. It set the attainment of a minimum annual growth rate of five per cent in income by all developing countries as the target of achievement by 1970. The first UNCTAD which met in Geneva in 1964 tried for the first time in history to grapple with the problems of trade and development of the developing countries. The UNCTAD-II which met in New Delhi in February 1968 aimed at continuing those developmental efforts.

Paradox of Technological Progress

The functioning of UNCTAD needs to be viewed against the background of trends in world economy. Though the tremendous advance made by science and technology has brought about unparalleled material prosperity to the world, this progress has not been shared by all countries equally. Over two-thirds of the peoples of the world live in conditions of poverty and misery. It is a paradox of technological progress that it has tended to widen the gulf in the living standards of the peoples of the advanced and the less developed countries of the world.

In addition, the technological progress has given rise to yet another paradox. As a result of developments in technology, the exports of primary commodities from the developing countries have tended to expand very slowly, partly owing to increasing substitution of synthetic for natural products, partly owing to smaller raw material content of finished products and partly owing to adoption of modern agricultural techniques in advanced countries leading to enormous increase in agricultural output which has weakened the export of primary products to them. On the other hand, the penetration of technology in developing countries has the effect of increasing their imports from developed countries, causing a persistent tendency towards external disequilibrium. Since it is impossible to achieve a higher growth rate under conditions of such chronic disequilibrium, the development process has tended to slow down. As against the annual growth rate of 5.1 per cent in the case of advanced countries of the west and of 8.1 per cent of the socialist countries during the period of 1960-65, the average annual growth rate during the same period of 54 countries representing 87 per cent of the population of the developing countries was only 4.5 per cent, and of these, 15 countries showed the annual growth rate of only 2 7 per cent, instead of the targeted growth rate of 5 per cent for the Development Decade of 1960-70.

It was against this background of a widespread disenchantment felt by the international community with the results achieved during the first seven years of the Development Decade that UNCTAD-II met in February 1968 in New Delhi. The conviction of Dr Raul Prebisch, the Secretary-General of UNCTAD (who has since resigned) has been shared by economists and leaders of government that "the problems of economic development of developing countries can be tackled best not by measures taken in isolation by the advanced and developing countries but through the formation of a coordinated strategy of development at the international level based on a series of convergent measures on the part of all countries regardless of the level of their development."

Conception of Global Strategy

Dr Prebisch's conception of the global strategy has three main elements. First, development is primarily a responsibility of the developing countries. Secondly, the responsibility cannot be carried out without international cooperation. Thirdly, the international cooperation to be effective must be accorded the highest priority and must be fitted into a global approach of development, for experience has shown that international cooperation coming in bits and pieces and based on sectional interests will not help much.

The global strategy needs to be directed towards closing three gaps---the saving gap, the persistent trend towards external disequilibrium and the external vulnerability of the developing countries. The developed countries can play a vital role in concrete terms by means of facilitating easier access for the primary and manufactured products of the developing countries and by stepping up the quantum of financial aid. There has to be matching efforts on the part of the recipient countries. This implies not only a discipline of development but concerted attempt at trade expansion and at econom c integration among developing countries. Equally important is the continuity of the global cooperation for a reasonable period of time till the developing countries are in a position to ensure sustained growth on their own. In this connection the point needs to be emphasised that such a global strategy for the economic development of backward countries would also benefit the advanced countries. Rationalisation of trade would benefit both groups of countries and financial aid rendered by the rich

*UNCTAD-II - A Step Forward; H.D. Shourie ; Indian Institute of Foreign Trade, New Delhi ; pp. 407 ; Price Rs. 14.50.

countries would mean investment in the future. The enhanced purchasing power in developing countries would enable the developing countries to buy more goods from the advanced countries.

It was hoped that UNCTAD-II would evolve a series of concrete measures designed to strengthen the developmental efforts of the developing countries within the framework of an overall global strategy of development. It is unfortunate that the Conference failed to make any significant contribution to the evolution of an international development policy and therefore the hope has been frustrated for the time being. The reasons for the failure do not lie in the temporary economic and political difficulties of the developed countries. The failure of UNCTAD-II represents in fact a failure of political will on the part of the developed countries. A vast majority of affluent countries treat the problem of economic development of backward countries as a residual problem. It must also be admitted that the developing countries on their part are also to be partly blamed for this failure as they showed reluctance to introduce the necessary social and economic reforms and subject themselves to the discipline of development. The manner in which the problem of mobilisation of rural resources in India is being tackled at the present is a case in point.

Problems of Commodity Exports

Of all the problems, the one of commodity exports from the developing to advanced countries was the most vital. The problem was of immediate concern to developing countries. The success or failure of the Conference largely depended on its ability to successfully tackle this problem. Chapter two of the book in which is described the attitude taken by the advanced countries on this issue reads like an essay on evasion!

UNCTAD-II did not achieve any positive results in regard to the problem of access to markets for primary commodities. Among the commodity problems the foremost issue was the broadening of access for the primary products exported to developed countries. Access to them could be facilitated through (*a*) elimination or reduction of tariff and non-tariff barriers and (*b*) guaranteeing a share of the annual increment in consumption of the primary products in developed countries. Other problems were the operation of financing of buffer stocks, diversification programme, guidance for pricing policy and challenge to primary products emanating from synthetics. The Conference generally came to the conclusion that the problems of primary products could best be tackled not through any general formulae but on commodity-by-commodity basis. In fact the attitude of free market economy countries was least helpful in this respect. On the other hand socialist countries were definitely more sympathetic and positive in their approach.

Similarly not much progress was achieved in respect of facilitating access for manufactures and semi-manufactures into the advanced countries. Even the modest request of examining the possibility of specific action on tariff and non-tariff barriers did not receive acceptance.

"Preference" constituted a key issue before UNCTAD-II. The prospects of a rise in primary exports being limited for various reasons, preferences had assumed an urgency to enable the developing nations to acquire increasing share of the fast expanding world trade in manufactures and semi-manufactures. The grant of non-reciprocal and non-discriminatory preferences by the developed countries in favour of developing countries was an important step designed to increase the quantum of manufactured exports from the latter. Such preferential tariff would help demolish the high tariff walls which obstruct access to manufactured and semi-manufactured goods in high income markets by all developing countries. It was hoped that the higher foreign exchange earnings made possible through the universal application of non-reciprocal preferences would enable backward countries to increase the purchase of capital equipment required for their development. If the preferences continued for long, the industries in developing countries would be strengthened sufficiently to enable them to dismantle protectionist measures and expose themselves to international competition.

Unfortunately, negotiations on "preferences" did not make much headway at UNCTAD-II. The main obstacle was reluctance of the advanced countries to make any advance beyond the stand taken at the OECD meeting at Paris which ruled out the possibility of an acceptable agreement on "preferences".

Some minor progress was however recorded in the field of preferences. The final acceptance of non-reciprocal and non-discriminatory general preferences in principle itself constitutes a notable advance on the position taken on the subject by the advanced countries. The collective agreement to a time-table for negotiations and implementation raises the hope that the scheme will come into operation by 1970. Mr Shourie seems to be extremely hopeful about this. But considering the attitude of the advanced countries on tariff, one would do well to wait hoping for the best but preparing for the worst.

Development Finance

It has been recognised that the quantum of foreign aid has been levelling off. Interest rates on them have been rising and maturities becoming shorter. Many countries including India have run into severe debt service charges. The new inflow of

resources in the case of some developing countries are being cancelled out by the net outflow of resources on account of *payment obligations. The situation was serious enough for a* concerted effort at UNCTAD-II to persuade the advanced countries to implement the target of contributing one per cent of gross national product to development finance. It was hoped also to persuade the developed countries to give the greater part of this one per cent as official component aid. Equally urgent was the necessity to secure the softening of terms of aid, agreement on re-scheduling of repayment and untying of an increasing proportion of aid to enable developing countries to make their own purchases from the cheapest markets.

The developing countries succeeded in securing from the advanced countries only the commitment to contribute one per cent of GNP by way of annual aid. This involves an increase of approximately 25 per cent per annum in the quantum of resources transferred. But there was no agreement on specific period w'thin which this aid target was to be fulfilled. Some countries agreed to achieve the target by 1972 and some others by 1975. In regard to the official component of aid, it was agreed to provide at least 0.75 per cent of GNP as official aid. There was also general agreement on softening of aid terms. There was also general agreement on the principle of progressive untying of aid and elimination of tying to a few commodities only. The Conference recommended re-negotiations and refinancing to solve the problem of mounting debt services. There was recognition of the need to provide long-term financial assistance to protect development plans against the effects of export shortfalls. According to Mr Shourie all this constitutes yet another advance over UNCTAD-I. Since it is only France which has made serious effort until now to realise the target of one per cent, let us hope that Mr Shourie's hope in this regard is not misplaced.

Unanimous Resolutions

The largest number of unanimous resolutions were passed in the field of shipping. The international community for the first time accepted the idea of consultations on freight rates and conference practices and of financial assistance for expanding merchant marines and shipping and port facilities of developing countries. The problem of freight rates is extremely complex and the multi-national Shipping Conference appears to be outside the purview of even the United Nations. One therefore doubts whether these pious unanimous resolutions on shipping would be of any concrete help in near future. Th^ vested interests, personal and national, are, too deeply entrenched in this field and cannot be easily ousted by any agency at the present.

For the first time since the conception of UNCTAD, the Conference passed a unanimous resolution on the difficult problem of east-west trade. The objective of expansion of trade between the socialist and developing countries found adequate expression in these resolutions. However, the expectations that the socialist countries would indicate quantitative targets for import of primary commodities and manufactured goods was not fulfilled.

Mr Shourie is of the opinion that some progress was achieved in respect of trade expansion and economic integration among the developing countries. The developed countries have agreed to extend support to integration efforts among the developing countries through financial and technical assistance and appropriate economic policy. The developing countries on their part have expressed determination to take vigorous measures to promote trade and regional integration among themselves.

The Declaration calls upon developing countries to take effective measures for the promotion of agro-industries and tackling food problem created by dynamics of population.

According to the author, in addition to the above positive gains, UNCTAD-II had to its credit certain intangible gains of great significance. The unity of the "77" (now 89) has been further strengthened. But does Mr Shourie really believe that real unity has been established among the "89"? This unity is more sentimental and is negative in character. What was the fate of the recent Indian move to put political teeth into the UNCTAD to make it more effective? Even some of the developing countries were suspicious of the move which naturally failed to get their support.

Though Mr Shourie has taken optimistic view and has tried to point out some of the gains of the Conference, it must be admitted that the Conference was a complete failure. The failure of the UNCTAD-II may be traced to three factors : the political considerations which still hamper resolution of even purely economic problems, the unrealistic and often excessive demands made by the developing countries and the extremely cumbersome machinery of UNCTAD with its large number of members and multiplicity of deliberative machinery. It therefore came as no wonder to most that Mr Raul Prebisch tendered his resignation soon after the session was over out of sheer frustration with the organisation.

WINDOW ON THE WORLD

Children in the Dark

E. B. BROOK

VIENNA:

IT IS symptomatic of the current acute nervousness in European money markets that the absence of a communique after the international bankers' meeting in Basle caused depression to a degree unusual even nowadays. Bankers are not usually talkative and if they either had nothing definite to say or had lacked time to complete their work it was far better that they said nothing. But money in Europe is so chronically jittery that it seeks solace at every turn and, understandably, does not always find it.

It is, indeed, one of the current disappointments to find that experienced, highly trained and educated men can act, in moments of tension, in so almost hysterical a manner that every little delay or discouragement touches off a new little panic. It is scarcely an exaggeration to remark that, at the moment, many operators show the tendencies often displayed by highly strung children left alone in the dark.

The simile is not as far fetched or ridiculous as might appear. In the dark the operators certainly are and highly strung they certainly appear to be. No one, it seems, pays much attention to the old saw that when a gale is blowing the best thing to do is to try to standstill. Those who, at the moment, are selling holdings in British giltedged at some considerable loss might recall that nothing bad and nothing good lasts for ever and that, given patience, they will find prices recover.

Speculation in Currencies

These homely and very ordinary dicta are scarcely less banal than some of the accusations and counter-accusations being traded by governments and those commonly called speculators. In Britain one MP has even suggested that speculators be imprisoned. But who are the speculators? Certainly not groups of clever, malevolent men who appear to exist in the imagination of some as cynically moving millions from one currency to another, making immense and effortless profits. The greatest part of what is called speculation in currencies is necessarily and inevitably carried on by traders who buy and sell abroad. For the rest, it is operations by financial institutions, such as insurance corporations, who must invest their funds (their policyholders' money) where it will gain most, be most secure or, at worst, lose the least. Speculation represents, for the most part, normal and necessary trading activity by any concern with international operations.

One reason why there was no communique from Berne is the same reason that, for the time being, stalls development in international monetary policy generally—a new president and a new government are coming in the United States but have not yet arrived. Under the best of circumstances the two month interval between a presidential election and assumption of office by a new man is a trying period; under present circumstances it is a cause of nervous anxiety in which only the Christmas and New Year weekends will provide shortlived relief.

A good deal—more than usual—will depend on what Mr Nixon decides shall be his policy in all respects and by no means least in economic affairs. Everyone is searching for indications. What indications are available from his campaign speeches and from advice known to have been tendered to him are mildly encouraging. But it would be most unwise to assume that the US President-elect will follow precisely what he said when campaigning or adopt the economic advice that has been given him. No one will know whether this is the case for a few weeks. Even then, there is no certainty that conditions will be very different from what they are now.

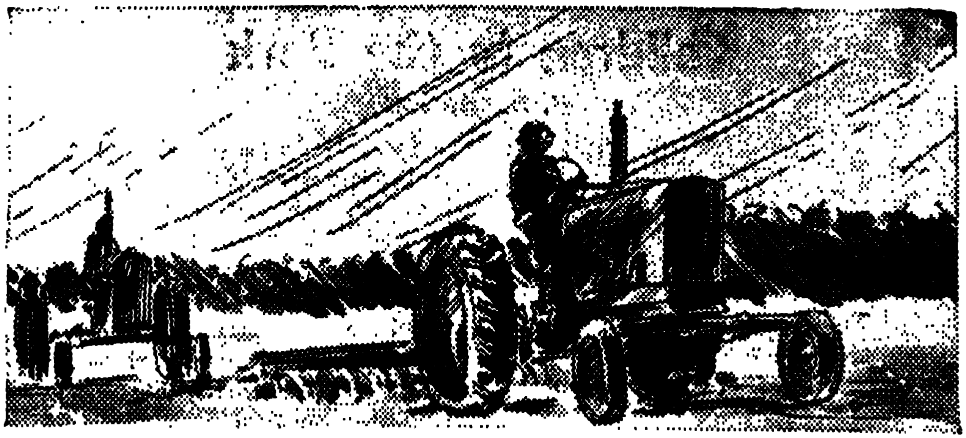
America's Payment Troubles

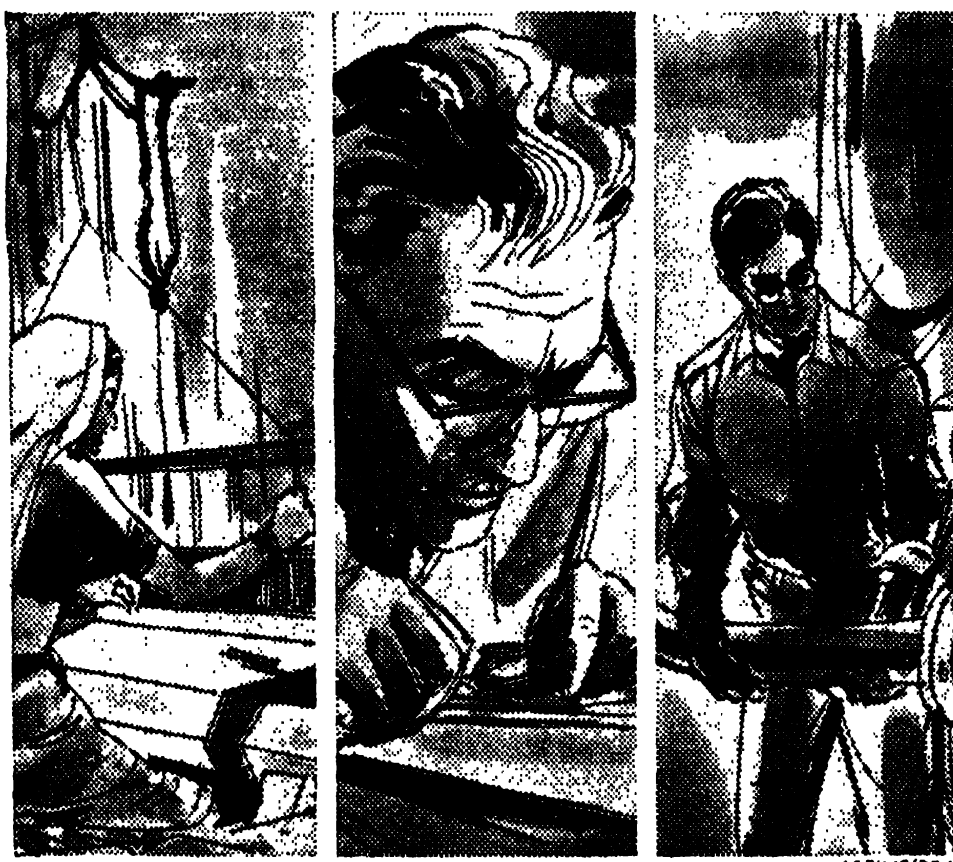
It may or may not be a relief to Mr Nixon that his leading economic advisers appear to be almost unanimous. These advisers are leading American economic academicians: no leading financial authority from other sources is known to have expressed an opinion. These academicians had been asked to find the best solution to America's payment troubles. They are not concerned with economic or monetary troubles elsewhere but, so pervasive is the effect of US policy as that of the world's greatest producer and trader that it is a major determinant in policies elsewhere.

All these academicians have come down, with varying degrees of firmness, in favour of a floating exchange rate instead of the present fixed one with fluctuations either side limited to one per cent. It may be assumed that Mr Nixon will not be adverse to this advice as he is already well known to oppose utterly curbs on trade and capital outflows. His chief adviser sees the only way to avoid continuing these curbs and inflation as well is to allow the dollar to float. The alternative, he says, would be to devalue the US dollar.

This advice may, in fact, be better received by Mr Nixon, to whom it is directed, than by surplus countries in Europe. For a floating dollar, achieved preferably by consultation (not a conference) with the International Monetary Fund and the Group of Ten, would involve Europe's surplus countries, notably West Germany and the Netherlands in choosing whether to let their currencies appreciate or peg their value to the dollar. If neither policy was acceptable to them their third option would be the unwelcome process of imposing restrictions on trade and payments.

The two basic determinants for the near future, apart from a new government and a new policy in the USA is the fact that next autumn sees a general election in West Germany and that a general election must come in Britain by 1970—more likely, many think in Europe, sooner than that. Europe regards Britain pessimistically at the moment and does not consider the Labour government will be able to achieve sufficient economic recovery by 1970 to be able to use it as an electioneering gambit. They also see the Labour Party losing confidence rapidly in its leadership, gloomy as to its own future. For these reasons Mr Wilson is not expected to wait until he is pushed out of office or upset by his





own followers in an effort to present the British electorate with a new image.

Both France and Britain, it is felt, may be compelled to change their present policies by the widespread and increasing lack of confidence in money. While this is strikingly noticeable in Britain the same phenomenon is coming up in France though the traditional hoarding propensities of the Frenchman makes it less noticeable. There is almost certain to be renewed pressure on the French franc following the fresh outburst of labour trouble and terrorist incidents. Unless Italy pulls its social order together very quickly its strikes and riots also will undoubtedly lead to an attack on the lira. If this happens, pressure for an upward German revaluation will be renewed, most probably unsuccessfully again because of next year's elections.

In these circumstances, particularly with crucial elections in the offing, and increasing nervousness also over the Soviet Union's political intentions, European governments may prefer in the coming year to play safe, play passive and adopt a line of least resistance by allowing their currencies, within limits, to float against each other and against gold. This would force both gold and the Deutsche mark up, the pound and the franc down and probably give the US dollar a gentle drop.

Such adjustments would not be without pain but not such excruciating pain as would be involved in trying to maintain unworkable fixed levels. It would also give the IMF and the Group of Ten time to work out in relative calm details for a multilateral currency swap arrangement that would genuinely neutralize reserve losses arising from the "hot money" flows that have been such a frequent and panicking affliction in 1968.

Rise in World Trade

GERARD A. DONOHUE

WASHINGTON :

WORLD TRADE rose again in 1968, and in spite of massive shocks, the world's monetary system remained intact. The dollar, the pound and the franc, three of the key trading currencies, all were subject to massive runs by those who forecast their devaluations. But because of stringent domestic actions and because other major trading nations took prompt rescue measures, the system of financing world trade and capital movements established at Bretton Woods in 1944 survived.

Neither the United States, Britain or France resorted to devaluation as a solution to balance of payments difficulties and none resorted to trade penalising import restrictions. Either measure could have easily caused retaliatory countermeasures by other nations with resultant dislocating slow-downs in world trade. But the major trading nations have long been convinced and they have been proven right again and again, that by pooling their resources and their ingenuity, a key nation in financial difficulty can be granted the time to take corrective steps, to the advantage of all.

The story of the dollar in 1968 is an eloquent example. Burdened with heavy overseas obligations, not the least of which is the commitment in Vietnam, rising prices, rapidly growing imports and an almost frightening deficit in the American balance of payments, many early this year rushed to redeem dollars for gold.

For a while it looked as if the supply of gold might not hold out—so great was the demand. And since the keystone of the world monetary system is the pledge of the United States to exchange gold for dollars at 35 dollars per ounce, a reneging of this pledge would have had disastrous consequences wherever men or nations, hold dollars.

The heads of the central banks of the major trading nations, as alarmed as American officials, met and quickly and surprisingly set up the "two tier" gold price structure separating monetary gold from industrial or speculative gold. The United States, for its part, raised taxes, cut government spending to reduce the budget deficit, and checked inflationary pressures to bring the balance of payments deficit under control. As a result, confidence in the dollar was restored and later in the year, when the franc and the pound were under speculative attack, the United States was able to furnish dollars to supplement British and French reserves.

While world-wide trade continues to climb--it is valued at well more than $ 200,000 million ($ 200 billion)--some important patterns are shifting.

The United States which has traditionally run huge trade surpluses to offset its extensive government and private outflows of capital now finds its surplus almost gone. In 1968 it was just about 1,000 million dollars. This contrasts sharply with a trade surplus of 5,600 million dollars in 1964.

It is not that United States exports have been falling; they have not. It is that imports into the United States are rising more rapidly. Imports into the United States now total about $ 32,000 million a year. Fifteen years ago they were about a third of that amount.

The United States, because of the size and strength of its economy, has attracted large investments from abroad, particularly in recent years. These total more than 70,000 million dollars while United States overseas investments, now restricted to ease the balance of payments problem, run more than $122,000 million. But although trade and investment continue to rise, two fundamental problems remain for the nations of the world. First, as long as nations have different rates of growth, different resources and differing levels of technology, as well as other differences, there will be balance of payments problems. And second while the demand for world trade increases the capital and foreign exchange reserves are just not being formed as fast, and as much as needed. One step to be taken to increase these reserves will be the formulation, probably this year, of the Special Drawing Rights from the International Monetary Fund. These will go a long way to finance the continuing expansion of world trade and help alleviate the monetary crises that threatened the system in 1968.

The moving finger writes

THERE WAS, of course, never any doubt that Mrs Indira Gandhi would attend the Commonwealth Prime Ministers' Conference. She, after all, has the advantage at the present time of a far more secure rear than, say, President Ayub. He, incidentally, is not only not as lucky as the present Prime Minister of India but is also less fortunate than its first Prime Minister. President Ayub has now to be trying to save his political skin, if necessary, at his son's expense; the late Jawaharlal Nehru had merely to scuttle Mr V. K. Krishna Menon.

* *

A painstaking diarist in 'The Hindustan Times' recently reported that the Prime Minister made 220 public speeches in the course of 1967, apart from speeches at purely party gatherings or brief interventions in Parliament. By the time the current year winds up, she would certainly have surpassed her 1967 performance; by the end of August itself the number of speeches made by her had gone up to 177 for the year—another piece of statistics for which too we have to thank 'The Hindustan Times'. Then there was the Latin American tour, in the course of which Mrs Gandhi made as many as 42 formal speeches.

"All these together", says the diarist, "add up to make Mrs Gandhi the most 'speechifying' chief executive anywhere in the world". I may agree with the arithmetic without necessarily sharing in the awe or the admiration. Our politicians generally—and not Mrs Gandhi alone—could take comfort from the fact that the quality of their oratory cannot be as easily identified as its volume can be recorded.

* *

Speaking for myself, I am not aware of even a single idea out of the ordinary that Mrs Gandhi has been able to express, while I can recall but one truly striking phrase from all those hundreds of speeches. Speaking in Cochin some days ago, the Prime Minister declared that our country had only "two genuine majorities—the poor and the young". It was a noble thought nobly expressed and the result is as near poetry as could lie in a politician's mouth.

According to newspaper reports, the Prime Minister went on to say that it was the people's primary task to work together so that these two communities, *i.e.*, the poor and the young "got the greatest satisfaction and fulfilment". I hope Mrs Gandhi would also concede that the government too has a specific responsibility in the matter. For the poor there has to be work and for the young opportunity. Is Mrs Gandhi satisfied that the 220 speeches she made in 1967 and the larger number she would have made in 1968 are all the contribution that she can make towards the government's part in bringing satisfaction to the poor or fulfilment to the young?

* *

I had some anxiety about the safety of the Apollo-8 astronauts, but none whatsoever about the physical well-being of Mr Shashi Bhushan who went on an "indefinite" fast on the grounds of Birla House. The only thing that was not definite about this fast, of course, was how soon the inevitable orange juice would be offered and accepted or on what pretext. It has been claimed that Mr Shashi Bhushan allowed himself to be persuaded to give up his fast since public opinion had been aroused. This seems to be true only in the sense that much of the general reaction to the conduct of certain people involved in the agitation over Birla House, surely, was one of resentment and disgust that some of the more unscrupulous political adventurers and opportunists in our midst are so shamelessly trading on the nation's most sacred sentiments.

* *

One of the ugliest features of this degrading agitation was the attempt made to create a prejudice in the public mind against Mr G. D. Birla by quoting an account by Mr Alan Campbell-Johnson (Lord Mountbatten's aide) of a lunch given by Mr G. D. Birla at Birla House some days after the assassination of Mahatma Gandhi. According to Mr Campbell-Johnson, the talk at this lunch was concerned with high finance and the prospects of barter agreements between Pakistan and India. From this the inference is sought to be drawn that Mr G. D. Birla was unmoved by the martyrdom of Mahatma Gandhi and untouched by the national tragedy.

Those who have the privilege of knowing Mr G. D. Birla may be pardoned if they reject these atrocious insinuations. I could perhaps recount here a personal experience which seems to have some relevance. Some years ago, a few days after a son-in-law of Mr G. D. Birla had died, I went to offer my condolence. Mr Birla had just arrived in Bombay from Banaras and was due shortly to leave for the UK and the United States. When I met him, I saw no outward sign of the great and grievous bereavement that he had just suffered and I, in fact, got no opening at all in the conversation to commiserate with him on his loss. Mr Birla promptly started talking about the nation's economic affairs and his programme abroad. At a pinch, I could think of only one other person whom I have seen reacting as stoically on the occasion of a similar bereavement—he is Rajaji, that other great *karma yogi* in our midst. Such men do not indulge their private griefs publicly, neither do they lose their fortitude or detachment because of personal or public misfortunes. It is, of course, too much to expect of the professional breast-beaters, who are so much with us these days, to appreciate the philosophic quality of that attitude of the mind.

* *

The old year will after all go down in the Chronicles of Man as the year in which human knowledge and human skills literally reached out into realms beyond the limits of the Earth. Apollo-8 is more than a triumph of American science or technology or even of science and technology as such. It is another definitive landmark in Mankind's endless questing for the secret treasures of Nature. Nevertheless, let us not deny to the American nation, or even to the American state, the tribute that is so truly its. Borman, Lovell and Anders are children of a culture which may have its trials and tribulations, but which is essentially of the substance in which the civilization of Man may be summed up. "To strive, to seek, to find, and not to yield"—is this not what Man is about?

V.B.

Trade Winds

CONTROL ON CAPITAL ISSUES

THE GOVERNMENT of India has decided to further liberalise the control on capital issues. A notification to this effect is expected to be issued in about a week's time. At present, all issues of capital exceeding Rs 25 lakhs have to be approved by the Controller of Capital Issues; capital issues up to Rs 25 lakhs do not require sanction from the government. In the case of issues requiring government's approval, sanction is given within 30 days of the receipt of requests if certain criteria in respect of equity-debt ratio, preference and debenture stock, issue of new capital at par, take-over of a company by another at book value, etc., are fulfilled.

Under the new liberalised scheme, a company will be allowed to issue new capital without sanction by the Controller of Capital Issues if some 13 or 14 criteria are fulfilled. It will be required to just file with the government a statement about the new issue 30 days prior to the floatation of the issue. Most of the criteria to be included in the forthcoming notification are the same as in the 1966 order which first liberalised the control on capital issues in nearly 20 years. Some of them, of course, are proposed to be clearly spelt out in the new order. Three or four new criteria are proposed to be added to the 1966 list.

The more important conditions which a company will now have to fulfil if its capital issue is to be made without the approval of the government (of course, above the exemption limit of Rs 25 lakhs) are : (*i*) The new issue should be at par : (*ii*) The long-term debt should not exceed equity (ordinary capital, preference capital with redemption period 12 years or more and free reserves) by twice the amount of equity; (*iii*) The equity preference capital ratio is 3 : 1; (*iv*) If the preference shares are to be issued, they should not carry dividend at a rate more than 9·5 per cent; (*v*) In the case of debenture issues, the interest is not more than 7·75 per cent; (*vi*) In the case of take-over of a company by another, the take-over should be at the book value of the company being taken over; (*vii*) If a private company is converted into a public company, the conversion takes place at the book value of the private company; (*viii*) No shares are issued in lieu of revaluation of assets or for intangible or fictitious assets; (*ix*) If the issue is the first one by a company through public prospectus, it should be eligible for listing on a stock exchange. Further, the promoters should have at least 15 per cent interest if the issue does not exceed one crore of rupees, 12 per cent interest if it is between one and two crores of rupees and 10 per cent if it exceeds two crores of rupees; (x) In the closed period, i.e. June to August, the issue is for not more than a specified sum; the limit proposed for the next year will be Rs 2·5 crores.

All bonus issues and issues of capital at a premium will require specific sanction from the government.

In the case of fertilizer and shipping companies which are allowed to have a higher equity-debt ratio than 1.2, sanction of a capital issue by government will be just a formality. Fertilizer companies are allowed equity-debt ratio of 1 : 2·5. New shipping companies are allowed to have this ratio at 1 : 4. In the case of established shipping companies debt can be six times the equity. A proposal to have these high equity-debt ratios for fertilizer and shipping companies in the forthcoming notification on the Capital Issues Control was rejected by the Capital Issue Advisory Committee at its meeting here last week. The Committee, however, recommended that no capital issues in future should be kept partly-paid for more than five years from date of issue.

FOURTH PLAN SIZE

The long-awaited decision on the public sector outlay in the fourth Plan, to be launched on April 1 this year, was taken last week. The outlay in the five years to 1973-74 will be Rs 14,800 crores—Rs 8,300 crores in the central sector (including union territories) and Rs 6,500 crores in the state sector. The central assistance to states for their plans will be Rs 3,500 crores. The states will be required to raise Rs 3,000 crores. No decision, however, has yet been taken on the private sector's outlay during these five years.

With a view to imparting flexibility to the Plan, it has been decided that whereas the above dimensions of public sector outlay between 1969-70 and 1973-74 are to be kept in view, primary importance will be accorded to annual plans which will be drawn up by taking into consideration buoyancy or stagnation of resources in a year. The outlay in the 1969-70 Plan will be kept down to the current year's level of Rs 1,385 crores. The proportion of this outlay during the first year of the fourth Plan to the overall fourth Plan is approximately the same as of the outlay in the first year of the third Plan to that Plan's overall size.

Although the sectorial break-up of the Plan is yet to be decided, it is felt that the defence expenditure in the five years to 1973-74 may be reduced from the originally proposed Rs 8,000 crores. The Defence Ministry is understood to be thinking in terms of a five-year defence Plan of Rs 6,500 crores. If the defence expenditure is curtailed, the Planning Commission is confident of producing a draft for the fourth Plan fulfilling a growth rate of five to six per cent as indicated in the "Approach to the Plan" document. The draft Plan is expected to be ready by the end of this month.

Centrally sponsored schemes in the Plan, it is learnt, may claim Rs 600 crores. Another Rs 300 crores will be set apart for building up a buffer stock of foodgrains. The buffer stock operation is to be made a permanent feature. The revenue flowing from this is expected to provide additional resources for the Plan. The network of consumer stores and the like proposed to be set up all over the countryside is also expected to increase revenue receipts substantially. The feared gap in resources for the Plan, therefore, may not be much.

The Planning Commission and the Finance Ministry intend to keep a very watchful eye on the economy in future. They do not want to commit the folly of resorting to deficit financing in a bad year.

F.I.C.C.I. ON FOURTH PLAN

The Federation of Indian Chambers of Commerce and Industry has proposed an outlay of Rs 18,000 crores and a growth rate of five per cent. It feels that a higher growth rate would subject the economy to inflationary pressures and lead to a balance of payments crisis. It has also been suggested that since the development potential of the economy cannot be accurately judged, the five-year Plan should be split up into five annual plans which could be revised in accordance with the changing conditions. In a brochure suggesting guidelines for the fourth Plan, FICCI has proposed that the capital market, which has been in a depressed condition, should be revived through suitable changes in the tax structure and that the rate of taxation which has reached "a point of diminishing returns" should be reduced.

INDO-NEPAL TALKS

The country may assist Nepal in the formulation of its development plan. The possibility of such collaboration was explored recently when the Nepal Government Finance Secretary, Mr Bhekh Bahadur Thapa, held talks with the Planning Commission Deputy Chairman D. R. Gadgil. The four-day Indo-Nepal talks started in New Delhi on December 24, 1968. A

delegation of the Nepal Planning Commission is expected to arrive in New Delhi shortly to discuss the details of the plan.

INFLOW AND OUTFLOW OF FUNDS

The outflow by way of remittances of profits and dividends abroad by foreign-owned companies or Indian subsidiaries of foreign companies exceeded the net equity inflow into the country, Minister of State for Finance, Mr K. C. Pant revealed recently. Mr Pant stated that in 1961-62 the total net equity inflow was Rs 27·7 crores; in 1962-63 Rs 25.9 crores; in 1963-64 Rs. 18·2 crores and in 1964-65 Rs 20·2 crores. The outflow on account of profits and dividends and the remittances on account of royalties and technical know-how and services were as follows : 1961-62 Rs 35·01 crores and Rs 2·4 crores respectively; 1962-63 Rs 40·87 crores and Rs 3·6 crores; 1963-64 Rs 30·82 crores and Rs 4·6 crores; and 1964-65 Rs 39·54 crores and Rs 4·4 crores. Mr Pant pointed out that Indian subsidiaries were mostly of British companies and many of them were started before independence.

PL 480 PACT

An agreement was signed in New Delhi on December 23 with the United States under which India will receive 2·3 million tonnes of wheat and some other agricultural commodities under PL 480 programme. The value of the commodities included in the agreement is $ 167·1 million (Rs 125·33 crores). Apart from wheat, the United States will supply 90,000 tonnes of tallow, 4,000 tonnes of non-fat dry milk and 200 tonnes of tobacco. The wheat supplies are expected to enable the government to build a buffer stock as planned for evening out availabilities and price fluctuations, particularly during the lean season. This country will pay in rupees for three-fifths of the value of the commodities. Sixty-six per cent of this rupee payment will be loaned by the United States to the Government of India for financing development projects. An additional 22 per cent will be granted by the US for financing development activities, including family planning. A further five per cent is reserved for loans to American firms operating in India or to Indian firms with American collaboration. The remaining seven per cent is reserved for use by the US Government. The payment for the remaining two-fifths of the commodities, and up to one-half of the ocean freight costs for shipping this portion, will be covered by a long-term rupee loan. The loan, repayable over 40 years, will have a 10-year grace period during which no repayment of principal will be required and interest will be two per cent per annum. Interest during the subsequent 30 years of repayment will be three per cent. The rupees received as repayment of principal and interest on the loan will be convertible into dollars at the option of the US government.

CANADIAN LOAN TO A.D.B.

The Asian Development Bank on December 23 accepted a Canadian contribution of $ 24 million (Rs 18 crores) to be used for soft loans for priority projects in developing Asian countries. An agreement covering five yearly payments of Rs 3·7 crores each was signed at the Bank's headquarters in Manila. The money will go to the Bank's multi-purpose special fund for concessional lending to developing countries on terms which are "more flexible and bear less heavily on the recipients balance of payments".

LOANS FROM CANADA

India and Canada on December 20 signed two loan agreements for Rs 20·82 crores ($ 30 million) for the purchase of fertilisers and other commodities from Canada. The loans, with a ten-year grace period, are free of interest and repayable over 50 years. These agreements conclude the negotiations for a total allocation of Rs 26·372 crores ($ 38 million) made available by Canada for development assistance during the current fiscal year. The agreements were signed by Mr James George, High Commissioner for Canada in India, and Mr N. R. Reddy, Joint Secretary, Ministry of Finance, Government of India. Under grant aid, Canada has given India Rs 27·76 crores ($ 40 million) of wheat this year and Rs 4·164 crores ($ 6 million) for debt write-off and technical assistance and agricultural programmes. In addition, more than Rs 9·022 crores ($ 13 million) is being made available in the form of interest bearing loans bringing Canada's total assistance programme to India for this fiscal year to about Rs 69·4 crores ($ 100 million).

INDO-SYRIAN TRADE TALKS

Talks began in New Delhi on December 23 between officials of India and Syria for concluding a trade agreement, the first of its kind, between the two countries. The Syrian Government delegation was led by Mr Kamal Ya'acoub while the Indian team was headed by Mr S. K. Singh, Director, Foreign Trade, Ministry of Commerce.

JUTE BUFFER STOCK

The government has agreed that an adequate buffer stock should be built up to ensure stability of raw jute prices and uninterrupted supply of raw materials to the industry. Measures will be taken to build up a buffer stock as soon as circumstances permit.

INDO-CEYLON TEA PANEL

India and Ceylon have agreed to set up a joint standing committee on tea for facilitating the implementation of the agreement between the two countries in respect of coordinated action on research and matters connected with sales promotion of the commodity in the world market. This was decided in New Delhi on December 19 at a meeting between the Ceylonese delegation led by Mr Hugh Fernando, and an Indian team, headed by Mr Dinesh Singh.

VANASPATI PRICES REDUCED

Prices of vanaspati have been further reduced by 21 paise per kg in the north zone, by 20 paise per kg in the south and east zones and by 18 paise per kg in the west zone with effect from December 23. The revised prices have been notified by the government under the Vegetable Oil Products Control Order, 1947, separate prices being fixed for sale by producers, wholesalers and retailers. The maximum retail prices of vanaspati in the different pack-sizes, and when sold loose exclusive of local taxes, will be as under :

Zone	16·5 kg. (Rs)	4·0 kg. (Rs)	2·0 kg. (Rs)	Loose per kg. (Rs)
North	68·51	18·24	9·55	4·15
South	66·37	17·72	9·29	4·02
East	78·74	18·29	9·58	4·17
West	68·06	18·13	9·50	4·12

NAMES IN THE NEWS

Sir James Lindsay, chairman and managing director of the Metal Box Company of India Ltd will be retiring on March 31, 1969. He will be succeeded as chairman of the company by **Mr Bhaskar Mitter** and as managing director by **Mr D. I. Allport.**

Mr Iain MacKinnon, chairman and managing director of Glaxo Laboratories (India) Ltd has been elected President of the Bombay Chamber of Commerce and Industry for 1969-70.

Company Affairs

SCINDIA STEAM NAVIGATION

MR DHARAMSEY M Khatau, chairman, Scindia Steam Navigation Co. Ltd stated at the annual general meeting held recently that freight earnings and other receipts of the company increased by Rs 3·68 crores to touch a figure of Rs 31·17 crores, leaving a surplus of Rs 3·02 crores during the year 1967-68, as against Rs 1·10 crores last year. He, however, stated that operating costs of shipping companies in this country continued to increase. It was, therefore, considered advisable, he added, to maintain rather than increase the dividend of the company and improve its resources so as to purchase additional tonnage. The company, he added, would complete 50 years of its operations on March 27, 1969, and consequently, it would be an occasion for the celebration of golden jubilee.

The company could not make much advance in the field of acquiring additional tonnage. This, he added, was essentially due to the shortage of foreign exchange. He stressed the fact that the government should take a more liberal attitude while sanctioning foreign exchange to shipping companies because these companies earned substantial foreign exchange on their added capacity. During the current year, the company had ordered for four ships from East Germany and had also purchased two ships of 15,000 DWT and 3,100 DWT, respectively. The company also entered into a contract with Rheinstahl yard in West Germany for building two ships of 16,500 DWT under the government-to-government credit arrangements. The company also had planned to buy a bulk carrier of 53,340 DWT for international trading.

The company, he pointed out, started a monthly service from Calcutta as well as from Bombay to Arabian Gulf ports and these would be in addition to its liner activity. The company also started in coordination with Indian Steamship Company and the Shipping Corporation a regular monthly service from Calcutta and other east coast ports to ports in Adriatic, Egypt and the near East. The company was also running a round the world service from Calcutta to the USA and back from West Coast of America and Canada to this country via Panama Canal.

Mr Khatau referred to the recent trends of palletisation and containerisation which were likely to reduce handling costs per unit of cargo and give quick despatches to ships. The company, he added, was studying the recent modes of carriage. He was of the opinion that container service was highly capital intensive and required specialised ships and ports, while palletisation was simple and did not require the same kind of specialised ships.

TATA CHEMICALS

Mr J. R. D. Tata, chairman, Tata Chemicals Ltd, stated at the annual general meeting held recently that the progress of the company had gathered substantial momentum during the last six years when the turnover was one and a half times larger, gross profit more than two and a half times, equity dividends paid nearly three and a half times and allocation to reserves nearly seven times as compared to the whole of the previous 23 years of the company's existence.This progress was recorded in spite of a disastrous fire and floods in 1967 which caused heavy loss.

In regard to the fertilizer project, he expressed hope that it would be approved by the union government. He assured the shareholders that except for a few minor changes insisted upon by the government, the project remained "the soundest and most advantageous of all the fertilizer projects". At one time, he added, serious objections were raised regarding the import of liquid ammonia over a period of seven years. The objection, however, was put to rest as it was realised that there would be a shortage of naphtha not only in this country but also in the world. The objection regarding the concentration of fertilizer manufacture in one state, however, could not be eliminated because, for technical reasons, this project could only be put up near Mithapur. Objections were also raised regarding the building of a jetty in the Gulf of Kutch. He hoped that the objections would be overcome.

Reviewing the delay of the project, Mr Tata added that a major cause was the government's decision in February 1968 to refer it to the Planning Commission which took four months in appraising the project. The sum total of their objection was that the project offered no special advantage over any other project of similar conception located elsewhere and enjoying the port facilities. Mr Tata stated that even if this was true, which was not in his view, there was no other project of similar conception and built-in freight advantage. It would produce 2·3 million tonnes per year of badly wanted balanced fertilizers at a lower foreign exchange cost than any other fertilizer plant in the country. The company, however, had not heard anything from the government and Mr Tata hoped that the scheme would be approved sooner or later for the simple reason of its incontestable merit.

RATNAKAR SHIPPING

Allotment of equity shares in the Ratnakar Shipping Company Limited offered to the public by the Sutlej Cotton Mills Limited has been finalised in consultation with the Calcutta Stock Exchange. Allotment letters shall be posted to applicants direct. Applications up to 400 shares have been accepted in full and for over 400 shares acceptance is based on a sliding scale starting from 80 per cent to 24 per cent of the shares applied for. Refund of balance money to applicants not allotted full shares applied for is to be made shortly.

METAL BOX

The directors of the Metal Box Company of India Ltd have proposed an interim dividend of 40 paise a share on the equity shares for the year ended March 31, 1969. The total dividend paid for the preceding year was 90 paise a share. In raising the rate of the interim dividend from 30 paise a share in respect of the last financial year to 40 paise per share, the directors wish to emphasize that the increase has been made with a view to reducing the disparity between the interim and final payments. They do not, at present, foresee any circumstances in which they would recommend a total distribution of an amount higher than that of the previous year.

IMPERIAL TOBACCO

The directors of the Imperial Tobacco Company of India Limited declared an interim dividend of 5½ per cent for the year ended March 31, 1969, payable to those shareholders registered as on December 30, 1968. From 1968-69 the company has proposed to declare one interim dividend and one final dividend instead of the previous practice of declaring two interim dividends and one final dividend. The present interim distribution represents maintenance of the level of the combined interim dividends declared during the previous year.

INCHEK TYRES

The directors of Inchek Tyres Limited have proposed to issue 390,000 equity shares of Rs 10 each for cash at par on a rights basis to the existing shareholders of the company in the ratio of one new share for every five

held. The new shares will be offered to those shareholders registered as on January 16, 1969.

ARLABS

Arlabs Limited proposes to expand its production activities so as to attain a measure of self-sufficiency and reduce the dependence on imported raw materials. The company is a pioneer in the manufacture of dyestuffs in this country. The expansion scheme will be completed by the end of 1970. The factory is situated at Bhor, about 45 miles from Poona.

SHREE RAM MILLS

The subscription list of the public issue of 62,750 equity shares of Rs 100 each at par by Shree Ram Mills Ltd which opened recently was closed on December 19, 1968, the issue having been oversubscribed.

RALLIS INDIA

The working of Rallis India Ltd during the year ended August 31, 1968 has resulted in a higher gross profit of Rs 107·79 lakhs compared to Rs 104.14 lakhs in the previous year. Sales have risen to Rs 38.63 crores from Rs 31·71 crores. After providing Rs 12·45 lakhs for depreciation, Rs 65,000 for development rebate reserve and Rs 52 lakhs for taxation, the net profit works out slightly higher at Rs 42·69 lakhs. The profit on sale of property is Rs 90,000. Credit has also been taken for Rs 69,000 being development rebate reserve no longer required. Provision has been made for Rs 4·90 lakhs for income-tax for previous years and Rs 2 lakhs for doubtful debts. The directors have transferred a sum of Rs 42·67 lakhs to general reserve. Equity dividend has been maintained at 13 per cent which will absorb Rs 29·25 lakhs.

CITIBANK AND GRINDLAYS

First National City Bank of New York is to become the largest single shareholder of National and Grindlays Bank with a 40 per cent interest in the equity. British shareholders, of which Lloyds Bank continues to be the largest with a 25 per cent stake, will hold 60 per cent of the equity. The plan is to double National and Grindlays resources by an additional £ 23 million share and loan capital, of which Citibank will supply nearly £ 20 million. At the same time, National and Grindlays is taking over all the business of the Ottoman Bank in such important areas as East Africa, the Middle East and Cyprus, but excluding the Ottoman's European and Turkish interests. This is expected to lead to an increased level of activity of both banks in India, where National and Grindlays has 54 branches and the Citibank eight branches.

CHAMPARUN SUGAR

Champarun Sugar Co. Ltd has earned a lower net profit of Rs 4·61 lakhs during the year ended June 30, 1968, as against Rs 7·18 lakhs in the previous year. Appropriations include : depreciation Rs 5·47 lakhs, development rebate reserve Rs 2,619, provision for bad debt Rs 83,382 and taxation Rs 9·10 lakhs. Of the net profit, a sum of Rs 2·50 lakhs has been transferred to general reserve. The proposed dividend of Rs 1·50 per share subject to tax, absorbs Rs 2·70 lakhs, leaving a balance of Rs 37,123 as against Rs 1·08 lakhs brought in.

KELVINATOR OF INDIA

Kelvinator of India Ltd has earned a profit of Rs 8·78 lakhs during the year ended June 30, 1968, after providing Rs 3·09 lakhs for depreciation, Rs 2,327 for development rebate reserve, Rs 14 lakhs for taxation and Rs 7·95 lakhs for general reserve. The directors have proposed a higher equity dividend of 15 per cent to be paid from the general reserve. Sales have risen to Rs 2·47 crores from Rs 1·73 crores. The demand for the company's refrigerators and for sealed-in units has recorded a steady rise during the year. To meet the rising demand, the company has decided to expand its factory and install new plant and machinery worth Rs 8·25 lakhs. The ex-

pansion will be completed in the current year. During the year 47 refrigerators were exported.

ASHOK LEYLAND

The working of Ashok Leyland Ltd during the year ended September 30, 1968 has resulted in a net profit of Rs 84·04 lakhs, after providing Rs 65·77 lakhs for depreciation, Rs 13·60 lakhs for development rebate reserve and Rs 69·50 lakhs for taxation. Equity dividend of 8 per cent has been declared, which will absorb Rs 62·30 lakhs. General reserve gets Rs 60·13 lakhs. Sales have declined to Rs 26·15 crores from Rs 27.68 crores. The directors state that the company's working during the year was affected by recession. There are, however, indications of some improvement in the current year. The company has pursued its expansion programmes and arrangements have been made for raising the necessary resources. The ICICI has sanctioned a sterling loan of £ 1 million, which will be utilised for meeting the cost of new machinery and balancing plant. It has also floated debentures of Rs 2 crores to meet the rupee cost of the project. The company has earned a profit of Rs 13·91 lakhs from sterling devaluation.

UNIT TRUST

The Unit Trust of India raised the sale price of units by 5 paise to Rs 10·45 per unit, with effect from December 16. The repurchase price, however, remained unchanged at Rs 10 per unit.

CAPITAL AND BONUS ISSUES

Consent has been accorded to seven companies to raise capital amounting to over Rs 2·64 crores. Five of them are to issue bonus shares amounting to over Rs 1·72 crores.

Tolani Private Ltd, Bombay, has been accorded consent to capitalise Rs 7·5 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one share for every two equity shares held.

Mulchandani Electrical and Radio Industries Ltd, Bombay, has been given consent to capitalise Rs 10 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for six equity shares held.

The Orissa Minerals Development Co. Ltd, Calcutta, has been granted consent to capitalise Rs 20 lakhs out of its general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for every two equity shares held.

Associated Battery Makers (Eastern) Ltd, Calcutta, is given consent to capitalise Rs 35·4 lakhs out of its general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for every five equity shares held.

Tata Chemicals Ltd, Bombay, is accorded consent to capitalise Rs 99,77,610 out of its general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of three for ten equity shares held.

The Mafatlal Fine Spinning and Manufacturing Co., Ltd, Bombay, having a paid-up capital of Rs 203 lakhs, has been accorded consent to issue further capital of Rs 41,80,300 in 41,803 equity shares of Rs 100 each to be allotted as fully-paid shares to the shareholders of the Sassoon Spinning and Weaving Co. Ltd, Bombay, pursuant to the scheme of amalgamation sanctioned by the high court.

The Straw Paper Mills of India Ltd, Hyderabad, has been given consent to the issue of capital of Rs 50 lakhs (Rs 35 lakhs in equity shares and Rs 15 akhs in 9·3 per cent cumulative redeemable preference shares of Rs 100 each). All the shares are to be issued for cash at par. The proceeds are to be utilised for the construction of a factory in Andhra Pradesh.

COMPANY MEETINGS

THE DELHI CLOTH & GENERAL MILLS COMPANY LTD.

Speech of the Chairman, Dr. Bharat Ram

The following is the speech delivered at the 80th Annual General Meeting of the Company held on 30th December, 1968 at the Registered Office of the Company at Bara Hindu Rao, Delhi-6.

DR. BHARAT RAM

Ladies and Gentlemen :

I have great pleasure in welcoming you to this 80th General Meeting of your Company. The Directors' Report and the Audited Statements of Accounts of the Company for the financial year ended 30th June, 1968 were sent to you some days ago, and with your permission, I will take them as read.

The year 1967-68 witnessed some improvements in the national economic situation, particularly in respect of agriculture. The improved supply of agricultural products was accompanied by a decline in prices to some extent. It is surprising, however, that the working class cost of living index did not register any fall, and in recent months has moved up substantially. Pressures for higher wages and dearness allowance persist, which naturally increase the cost of industrial products.

With the improvement in agricultural output and the transfer of money to the rural sector, there would have to be substantial efforts at mobilising these resources; and I agree entirely with the Finance Minister that taxation of agricultural income, in some form, would have to be resorted to. It would also be necessary in the coming years to substantially increase the production of consumers' goods. I need not dilate here on the snowball effect of increased consumer goods output, from the point of view of increased revenues from excise, the effect on employment, and improvement in the standard of living of the people.

This brings me to the question of investment and the capital market. I must stress again as I did last year that revival of the capital market is of critical importance. While I do appreciate Government action in bringing down the bank rate from 6% to 5%, I must emphasise that the cost of borrowed money as well as debentures and preference shares must come down if the capital market for equity investment has to improve. If the preference shares rate remains as high as 9·5%, naturally risk capital must expect a return of at least 12%, which again means that a Company must earn a gross profit of well above 25%, after providing for depreciation. This naturally leads to high prices and consequent ill effect on the total economy.

Apart from internal resources, the question of foreign exchange continues to be a problem; and for that, with the continuing uncertainty of foreign assistance, there is no choice for the country but to increase its exports substantially. It is heartening to see that there has been some improvement in the country's exports. With the development of the economy, in spite of efforts at import substitution, total imports will continue to rise, and personally I believe that Government should resort to some type of direct linking of imports with exports.

The Textile industry throughout the country continues to experience serious trouble. Several factories have closed down. Many of the difficulties of this industry can be traced to the factor of age. It is common knowledge that the requirements of an aging industry for keeping trim and uptodate, specially when changes are rapid as in the textile world, are greater than in the case of newer industries. Without dilating on the "how" and "why" of the textile industry not being uptodate, we must realise that Government has to help the industry to rehabilitate itself in a massive way. One cannot over-emphasise the importance of this industry to the economy of the country in terms of employment, exports, and satisfying a basic need of the people. Therefore, at this stage, it is no use apportioning blame for the state in which the industry has come to be. It would be interesting to know that even a country like Japan, where the textile industry is already very modern, the Japanese Government has formed an organisation called the Textile Industry Rationalisation Agency, which is aiming to pump more than $ 500 million for the re-organisation of the textile industry. The entire programme aims at replacing 2·8 million obsolete spindles (from a total of 12·5 million spindles) with 900,000 automated spindles, and replacing over 300,000 obsolete looms with 175,000 new ones. In their reckoning, looms of 13 years and over are obsolete and fit to be scrapped, to enable the industry to compete effectively in world markets. I have highlighted this problem because it is necessary that the Government should not consider this as a problem of a single industry but as a national problem confronting a premier industry which has wide repercussions on the total economy.

Talking of the specific interests of your Company, I would like to mention that textile units have shared the general decline in profitability in this industry. Rayon tyre-cord and PVC at Kota have also been facing stiff competition, due to production being in excess of demand and consequent decline of prices. The sugar and vanaspati factories have done well. You would be happy to learn that the Fertiliser plant at Kota, in which the Company has invested a large sum, would be in production within a few days. It is indeed a matter of some pride that this modern plant is being put up in record time, and will not only help to save a substantial amount of foreign exchange for the country, and add significantly to agricultural prosperity, but would also add considerably to the profitability of your Company.

Taking into account the immediate financial needs of the Company, your Directors deemed it appropriate to restrict the cash dividend on ordinary shares to 6%, and to issue bonus ordinary shares in the proportion of 1 share for every Rs. 250 of paid-up ordinary capital held by a member, by capitalising a part of the General Reserves. This decision, I think, will be to the benefit of shareholders.

In the end I should like to record our sincere appreciation of all the workers and staff whose efforts and devotion have enabled us to achieve good results during the year.

May I wish you all a happy and prosperous New Year.

Note: **This does not purport to be a record of the proceedings of the Annual General Meeting.**

TATA CHEMICALS LIMITED

The following statement by Mr. J.R.D. Tata, Chairman of Tata Chemicals Limited, dealing with the Company's working for the year ended 30 June 1968, has been issued to the shareholders.

To the Members,

Year's Results and Prospects

1. The year under review was the sixth consecutive one in which your Company recorded an increase in its output and turnover. The profit earned from the sale of products was only marginally higher than last year, indicating the extent to which the results were affected by increases in costs beyond the control of the Company. This temporary flattening of the profit curve need not cause shareholders any worry regarding the prospects of the Company in the coming years. In fact, during the first four months the Company has fared appreciably better than over the corresponding period last year. Barring any unforeseen developments, therefore, the outlook for the current year is promising. What is more important, the Company's programme of expansion and modernisation, although somewhat slowed down by continuing procedural delays in securing from Government the necessary clearances for the utilisation of foreign exchange funds already available to the Company, is being vigorously pursued and by 1970/71 the Company will have substantially strengthened its manufacturing base at Mithapur, increased its output and improved further its efficiency and costs.

Record of Progress

2. While this programme, aimed at raising all round performance, has been a continuous one for many years, it gathered substantial momentum during the last six years. It is noteworthy that during this period, as compared to the whole of the previous twenty-three years of the Company's existence, the turnover was nearly 1½ times as large, gross profits over 2½ times, equity dividends paid about 3½ times, allocations to reserve 7 times and retained earnings more than twice as large.

3. This remarkable progress must be viewed against the background of four drought years during which supplies of fresh water were curtailed to about one-fifth of the normal requirements, against a disastrous fire in January 1967, which destroyed the high-tension switchgear and the control panel of the turbo-generators, and against floods in 1967 which resulted in heavy losses of salt and bromine production.

4. The foregoing record of progress would not have been possible but for the expertise, the technical and managerial skills and the confidence acquired over the years by the team of able and devoted men who manage the operations of your Company. This expertise, which your Managing Agents have helped to build over the years, is perhaps the most valuable asset of the Company on which we may base our confidence in its future growth and prosperity.

Managing Agency

5. The present Managing Agency Agreement with Tata Industries Private Limited ends on January 22, 1969. Your Directors have desired that the Company apply to the Government of India for a marginal extension of the Managing Agency Agreement until such time that the legislation, aimed at the abolition of the Managing Agency and introduced in the Budget Session of the Lok Sabha, is enacted and becomes effective. I for one, and I hope you agree with me, will be sorry to see the Company deprived of the services of the Managing Agents which nursed the Company through its most difficult initial years and which helped to develop its present self-reliance. In the national context, it is unfortunate that just when the Managing Agency system seems to be most needed, particularly if and when our Fertilizer Scheme comes through, just when management expertise should help the country, Government and Parliament should be contemplating the indiscriminate abolition of all managing agencies on ideological grounds.

Fertilizer Project

6. Coming to our Fertilizer Project, shareholders will no doubt have been following with interest, and I expect with some concern, the heavy weather met by our project in its halting progress towards what I still hope to be ultimate approval. They will probably have been perplexed by the welter of confusing reports, many of them quite unrelated to fact, and the arguments and counter-arguments for and against the project appearing in the Press. Some may even wonder whether there was not something fundamentally wrong with the project of which I had given such a glowing account last year, and whether it has been or is being drastically changed. Let me reassure them. Except for a few minor changes insisted upon by Government the project remains, as it was, the soundest and most advantageous of all the fertilizer projects.

7. In that case, shareholders may ask, why have not Government seen their way to approve the project even after one full year of study and deliberation and discussions with the Company? There is, I fear, no simple answer I can give to such a question.

8. There were at one time serious objections raised in some quarters to the import of 1,522,000 tonnes of liquid ammonia over a period of 7 years, since reduced to a maximum of 1,250,000 tonnes or the quantity imported over the first seven years of regular production, whichever is less. This objection arose from a decision previously announced by Government that all future nitrogenous fertilizer plants should be based on the use of Naphtha in the erroneous belief that there would be a surplus of naphtha in the country. It now seems to be universally realised and accepted, as it should have been from the start, that there will in fact be a shortage of naphtha instead of a surplus not only in India but in the world. This particular objection seems, therefore, to have been put to rest, I hope permanently.

9. Another objection raised was to over-concentration of fertilizer manufacture in one State. Apart from the regional aspects of this objection, with which I naturally cannot deal, the fact is that, for technical reasons, our project can only be put up at or near Mithapur, and there can therefore be no question of it being set up anywhere else in India. Furthermore, because of the economies of scale and other built-in advantages of the project, the delivered cost anywhere in India of the balanced fertilisers produced at Mithapur will be no higher, and in many cases substantially lower, than that of equivalent fertilisers imported or produced anywhere else in the country.

10. Some objections were raised by the Ministry of Transport & Shipping, as widely reported in the Press, to our building a jetty for our own use in the Gulf of Kutch. Such a jetty is an essential integral part of the Fertilizer Complex and, considering that we have undertaken to observe all the rules

and regulations of Government in regard to navigation, customs, safety etc., we hope that this objection will be overcome.

11. Government at one stage asked the Company to agree to participation by the Central Government in the capital of the Company and its representation on the Board. This was a condition imposed on no other project and we protested against it. However, we ultimately agreed, subject to the concurrence of our shareholders and foreign partners, to the Government of India acquiring, from a new issue of shares, Ordinary or Preference shares, at their discretion, in such number as would result, after such issue of shares, in the Government Group, consisting of the Central Government, certain shareholding State Governments, the L.I.C. and the Unit Trust, holding not more than the equivalent of 22% of the ordinary capital of the Company.

12. A major cause for the delay that has taken place was the Government of India's decision in February 1968, after the project had been vetted in great detail and recommended by the Ministry of Petroleum & Chemicals and also appraised and approved by the Committee of Economic Secretaries, to refer it to the Planning Commission for their advice. The Planning Commission took nearly four precious months in appraising the project in the greatest detail, including its technological aspects. I understand that by and large the sum total of their objections to our project was that it offered no special advantage over any other project of similar conception, located elsewhere and enjoying the same port facilities. Even if this were true, which it undoubtedly is not in our view, the two simple facts remain that there is no other project of similar conception and built-in freight advantage, and that it will produce 2.3 million tonnes per year of badly wanted balanced fertilizers at a lower foreign exchange cost than any other fertilizer plant in the country.

13. Between the 27th of November, 1967, when the Company submitted its formal application to Government for an industrial licence, and the third week of July, the Company held innumerable discussions with Government and the Planning Commission and submitted in voluminous detail answers to every query put to it. Since then, and to the date of this Statement nothing further has been heard from Government on the subject. Whatever may be the real reason for the opposition to the project in some quarters, the fact remains that Government has had the project under consideration for over a year without coming to a decision on it one way or the other.

14. Your Directors still hope that the scheme will be approved sooner or later for the simple reason of its incontestable merit and because the country needs it. In the meantime, however, the long delay in coming to a decision will inevitably cause grievous loss of foreign exchange to the country. It is well known that even after the completion of all the fertilizer plants currently under construction or expansion, there will be a substantial shortage of fertilizers in the country which will have to be made good by imports if the requirements of the country's agricultural programme are to be met. It follows that to the extent that the Tata Project is delayed, the tonnage of fertilizers that it would have otherwise produced that much earlier, will have to be imported.

15. The Tata Project, at its fully developed stage and at present prices, will save about Rs. 92 crores per year in foreign exchange, representing the imported cost of fertilizers minus the cost of raw materials that would have been imported in making them at Mithapur. Assuming that Government would reasonably take, say, three months to approve a project of this magnitude, nine months have already been lost at an ultimate cost to the country of some Rs. 67.5 crores in foreign exchange which will be increased by a further Rs. 7·5 crores for every month's delay or Rs. 25 lakhs per day or over Rs. 1 lakh per hour!

16. The Tata Project is by no means the only project which has suffered, or is suffering, from Government's inability to come to a decision for months and even years in some cases. There are many others, large and small, in the fertilizer and other fields which have suffered the same fate at the cost of a heavy drain in foreign exchange to the country.

17. It is difficult to understand how the government of a country which, beset by a longstanding and intractable foreign exchange crisis, rightly adopts draconian measures to earn foreign exchange and reduce foreign expenditure, can allow hundreds of crores of foreign exchange to be lost through procedural delays or indecision.

18. As I have said elsewhere and in another context, the major problems and difficulties facing the country today are economic and not political. I would urge that Government's decision-making machinery and procedures in economic matters be reviewed and overhauled so that decisions may be taken without the prolonged delays met with today. There is in fact to my mind a strong case for doing away with the need for the Cabinet to decide on a host of matters which today require, in my view quite unnecessarily, their approval in addition to that of the Ministry concerned.

19. I would also respectfully urge that Government review the practice of referring almost every economic matter that comes their way to a succession of committees, however much it satisfies the human urge to avoid or postpone commitments or decisions which might ultimately be criticised. No business or industry in the country, whether in the public or the private sector could operate if its management were to follow the practices and procedures followed by Government. It is to be noted in this context that the Governments of countries like the U.K., France and Italy, with controlled economies and large public sectors of industry, manage their economic affairs without the cumbersome decision-making machinery which our Government has inflicted upon itself. It would, I submit, be useful to compare their procedures with ours.

20. In the meantime, I must regretfully inform the shareholders that our American partners Allied Chemical, increasingly impatient at the long delay, incomprehensible to them, in obtaining Government's approval to the project, and also concerned at Government's insistence on participating in the capital of the Company and being represented on its board, have withdrawn their collaboration. While this decision is deeply regretted by us, it will not affect the Company's determination to go ahead with the project. The technical contribution of Allied Chemical to the project, though valuable, was not critical and their withdrawal therefore will not pose any insuperable problem. The major benefit of the Allied participation lay in assuring to the Company the necessary supplies of ammonia, phosphoric acid and sulphur from Iran through their participation, along with the National Petrochemical Company of Iran, in the Shapur Chemical Company. Since the withdrawal of Allied Chemical, the National Petrochemical Company, which is owned by the Government of Iran through the National Iranian Oil Company, has undertaken to supply these materials to us at the same price and in the same quantities as previously negotiated with Allied Chemical. The N.P.C. have also offered, if desired by us, to participate in the share capital of the Company. The arrangement now entered into with them thus substantially replaces the benefits which the project was to derive from the participation of Allied Chemical.

21. In closing, I am sure shareholders will wish me to refer to the steady and concentrated effort put in by my colleague, Mr. Darbari Seth, by his staff and by all other employees of the Company to achieve results which are commendable in a particularly difficult year. This performance merits our thanks and our admiration for the self-reliance achieved in an industry which is both competitive and complex.

Bombay 17 *December*, 1968. *Chairman.*

Note : **This does not purport to be a record of the proceedings of the Annual General Meeting of the Company.**

THE SCINDIA STEAM NAVIGATION COMPANY LIMITED

Speech of the Chairman, Shri Dharamsey M. Khatau

Following is the summary of the Statement of Shri Dharamsey M. Khatau, Chairman, The Scindia Steam Navigation Company Limited, made at the 49th Annual General Meeting of the Shareholders on Wednesday, the 18th December 1968 at Patkar Hall, Bombay 1.

After referring to the sad passing away of Shri N. K. Petigara and Sir Chunilal Bhaichand Mehta and the great loss suffered by the Board of the Company, Shri Khatau mentioned that the year under report showed signs of revival as compared to the two previous years of recession. Though industries have begun to pick up and exports have increased, the revival is slow and is likely to remain so for some time to come. Due to floods and famine conditions in many parts of the country and a significant reduction in foreign aid, the future threatens to be difficult.

The Company's freight earnings and other receipts have gone up by Rs. 3·68 crores to Rs. 31·17 crores, leaving a net surplus of Rs. 3·02 crores as against Rs. 1·10 crores last year. Shri Khatau, however, drew the attention of the meeting that operating costs of Shipping Companies have been rising continuously and there appeared no prospect of any stabilisation therein. The Company's vessels suffer inordinate delays at ports and therefore, priority should be given in the development of existing ports, so that delays to ships could be reduced to a minimum.

It was considered advisable to maintain rather than increase the dividend, despite the higher earnings as it was very vital for the Company to conserve its resources so that the Company had at its disposal adequate money to invest in the purchase of additional tonnage, which would add to the Company's revenues and maintain its position in the Shipping World. The Company was completing 50 years of service to the commercial community on 27th March 1969 and it was proposed to celebrate its Golden Jubilee suitably.

There appeared to be a feeling among some Shareholders that a portion of the amount in Development Rebate Reserve which would become "Free Reserve" over a period should be utilised for distribution. It was, however, pointed out that such reserves should be utilised solely for the purpose for which it was established, viz. purchase of new or near-new tonnage. When amounts from such reserves become "Free Reserve", it was only a matter of book adjustment without any change in the available Cash Resources.

The Company's efforts to acquire additional tonnage had not met with much success in the current year, due mainly to shortage of foreign exchange and this is due to the unwillingness in so many quarters to appreciate the obvious essential fact that shipping is a valuable earner of foreign exchange. During the year, the Company has earned Rs. 14 crores in foreign exchange and would it not be justifiable to utilise a substantial portion of what the Company earns to enable it to function efficiently and adequately? The Government of India should, therefore, adopt a bold and far-sighted policy and readily permit owners to go in for acquiring tonnage, new or second-hand, and start earning foreign exchange immediately on acquisition without any gestatory period as in other shore based industries.

Our imaginative Transport Minister Dr. V. K. R. V. Rao and his Ministry are no doubt seized of the importance as well as of the problems of Indian Shipping and it is hoped that they will succeed in their efforts to secure the assistance of which shipping stands in dire need and with such assistance, if given, Indian Shipping would be able to contribute to a much greater extent than hitherto to the Foreign Exchange pool of the country. During the current year, the Company has ordered four ships from East Germany. The Company has also purchased the 'Jalagirija' of 15,000 DWT and 'Sonavati' of 3,100 DWT for our Overseas trades. We have also entered into a contract with the Rheinstahl Yard in West Germany for building two ships of 16,500 DWT under the Government to Government Credit arrangements. With a view to diversify our activity, we have decided to buy a bulk carrier of 53,340 DWT for international trading.

The important developments in World Shipping will sooner or later affect us. These are palletisation and containerisation, which are likely to reduce handling costs per unit of cargo and give quicker despatch to ships so employed. Our Company is studying both the modes of carriage of cargoes as well as the Lash type of ships. The container service is highly capital intensive and requires specialised ships and ports. The palletised system of carriage is more simple and does not require the same type of specialised ships as the container system and our near-new existing vessels could be utilised to carry such palletised cargo without much alteration.

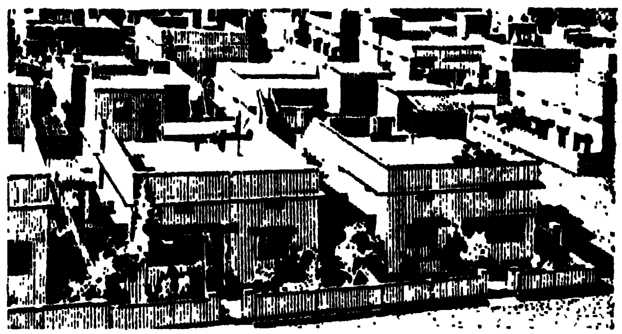
The Company has started a monthly service from Calcutta as also from Bombay to the Arabian Gulf ports and these will be good additions to our Liner activity. We also started in coordination with India Steamship Company and the Shipping Corporation a regular monthly service from Calcutta and other East Coast ports to ports in the Adriatic, Egypt and the near East. We are also operating a round the world service from Calcutta to U.S.A. and back from the West Coast of America and Canada to India via the Panama Canal.

Last year, it was mentioned that the Workshop may not continue to be a source of profit in view of reduction in the number of our coastal and passenger ships. The Workshop has therefore taken up a programme of diversification of its activities to fabrication and new construction work as mentioned in its Directors' Report. The profitability will, however, be low in view of severe competition among Engineering Units and recession in the Engineering industry.

Whilst thanking shippers and consignees in India and abroad for their support, Shri Khatau paid a tribute to the Management, employees ashore and afloat and the Company's Agents in India and abroad for their devotion to duty. Shri Khatau also thanked Prof. V. K. R. V. Rao, our Minister for Transport and Shipping and his Secretaries, the Director General of Shipping and his officers and the Chief Controller of Chartering and his office for their active support and assistance.

The Garden city 60 years ahead of its time

Jamshedpur, the steel city, is full of trees and flowers! In fact, it is one of India's most beautiful cities. And the amazing thing is that Jamshedpur was conceived and planned exactly as it is today, more than 60 years ago, long before planned cities became common even in the West.

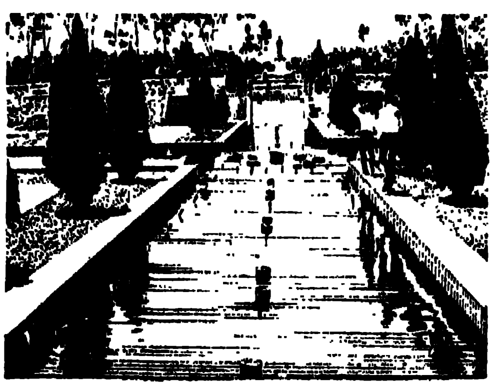


Sonari—an underdeveloped area transformed. Under a phased programme, Tata Steel has helped the people to convert 20 underdeveloped areas into beautiful localities, with well-lighted roads and adequate water supply.

The Tata Main Hospital. In addition to this well-equipped 600-bed hospital, Tata Steel has contributed to the setting up of an 82-bed TB hospital with a special children's ward.

Jubilee Park. "Flowers, parks, and trees supply something which is, I imagine, of more basic importance to human beings and the human spirit than even iron and steel and it was a very happy thought to... provide this beautiful park."

Jawaharlal Nehru



Our strength is in our people as much as in our steel.

TATA STEEL

TN 4120

RECORDS AND STATISTICS

Traditional Industries Need Help —Assocham

THE ASSOCIATED Chambers of Commerce and Industry of India held its annual general meeting at Calcutta on December 14, 1968. Mr Morarji Desai, Deputy Prime Minister, addressed the distinguished gathering. We reproduce below excerpts from the speeches of Mr N. M. Wagle, President of the Assocham and Mr Morarji Desai, and the resolutions (in full) which were adopted unanimously :

Mr Wagle for Resource-based Plan

In the course of his speech welcoming Mr Morarji Desai, the President Mr Wagle said:

"1968 has been a year of anticipation. After last year's record harvests we waited anxiously to see how this year's monsoon would work out; whether ground lost during two years of recession would be recovered and whether inflation would at last be contained. It has also been a year of preparation for resuming industrial growth.

On the food front this year's achievements have been even more remarkable than last year's performance. Last year's bumper harvests showed how modern techniques and a really good monsoon could combine to transform the food situation. This year the monsoon has been more capricious, but we may reasonably expect a harvest not appreciably smaller than last year's record crop. If this turns out to be so, it will prove that concerted action by the central and state governments in providing the agricultural sector with necessary inputs can largely overcome the handicap of uneven rainfall. While we cannot altogether dispense with nature's bounty, it is good to know that the vagaries of the weather no longer need distort the entire national economy. Our first objective must be to ensure that no man in this country is again haunted by the spectre of famine and we are moving rapidly towards achieving it.

Revolution in Agriculture

This is a revolution in agriculture, and it has been achieved in the main by a growing body of our farmers who treat agriculture as an industry. Let us give them credit for what they have done.

So it is disturbing to learn that certain quarters are concerned that agrarian prosperity is confined to this relatively small section of the rural population, and would like to check the growing inequality of wealth in the villages. Let us hope that government will not have second thoughts about the prime importance of encouraging the more enterprising farmer to improve the yield from his land. Doctrinaire concern over inequality of wealth in the rural sector should not be allowed to qualify such support.

For if the enterprising farmer improves his lot, his wealth must reflect favourably on the welfare of the rest of the rural population. Given time, the smaller farmers will emulate the example of their more venturesome neighbours.

Again, as more of them move from a single dry crop to two and even three irrigated and fertilised crops a year, their demand for labour must increase. From this will flow the dual benefits of higher wages for the landless and a reduction in rural unemployment. If we are content to live well alone, we can expect a substantial improvement in the standard of living of landless labour.

This striking progress in agriculture means more for the economy than national self-sufficiency in foodgrains--itself a vital achievement. It has also generated substantial purchasing power in the rural sector. This can make a real contribution towards reviving the industrial sector provided we, in industry and commerce, are resourceful enough to find out what the farmer will buy and are able to reach the goods to his door. Industries supplying agricultural machinery and other inputs to the farmer have already benefited from the farmer's readiness to invest his own money rather than wait for loans or subsidies from government, and commercial banks are also being attracted into the countryside. But if commerce and industry are to make full use of this growing purchasing power in the villages, we must first determine the exact nature and extent of the rural market and then devise efficient lines of distribution to service it.

Rural Buying Habits

The Associated Chambers are deeply interested in this problem. We have recently commissioned a survey to find out more about the buying habits of the rural population, to study the physical problems of distribution at the village level and to ascertain the most effective marketing techniques. This is a modest effort, confined to one "taluka" each in West Bengal and Maharashtra; and inevitably, the results of this survey will be of a somewhat general nature. But we hope that our findings will provide industry with some instructive lessons and, perhaps, will stimulate more individual companies and trade associations to undertake specialised marketing surveys directly related to the circumstances and needs of their own particular products.

The bumper harvests of last year had raised hopes that the improved supply of foodgrains would help to correct recessionary trends in a wide range of industries. It is now clear that ground lost during five difficult years following the Chinese aggression could not be regained by excellent harvests in one year. For one thing, the farmer was not willing to market his entire surplus; after two years of drought, he can hardly be blamed for his caution. But a more important factor was the inelasticity of an economy which had become over-dependent on development outlays by government. Over the last three Plan periods industrial growth and investment patterns have been shaped by large outlays of government money on development projects, and a revival in heavy engineering and structural industries depends upon a substantial resumption of government orders.

Another hopeful sign of the improved economic outlook is that, after a planning pause of over two years, government now feel sufficiently confident to inaugurate the fourth Plan in 1969. A complete plan outline is not available yet, and details of the new Plan are still being worked out. But the Planning Commission's paper on the Approach to the Fourth Plan contains a number of welcome features. They suggest that, this time, we shall have a more realistic plan which will positively stimulate growth and development. There is evidence that the Commission, under its new leadership, has adopted more liberal and indicative attitudes. These might lead to some relaxation of the pervasive system of control and regulation which, in so many ways, has hampered the progress of the private sector of industry.

The Approach Paper and subsequent discussions suggest that, instead of prescribing production targets on an arbitrary basis, the Planning Commission genuinely desires to consult industry and to take the private sector into its confidence. These are welcome developments. They will stimulate participation and cooperation on a wider basis; they will help to support substantial economic growth combined with stability.

Although we commend the Planners' new approach, some basic issues demand to be reconsidered. First, it is essential that the plan should be resource-based rather than need-based. In previous plans, needs were

postulated and then a search was made for resources to meet them. In the past it was this compulsion somehow to raise additional resources to meet prescribed needs that imposed on the economy an oppressive burden of taxation, removed basic incentives to produce and save, and limited the private sector's ability to develop rapidly. It also added to inflation. There is evidence that the Planning Commission now appreciates the need to keep the Plan within the limits of available resources but it will succeed in so doing only if the resources themselves are realistically assessed.

Secondly, I believe that the Approach Paper places far too much emphasis on the dangers of concentration of economic power. The Commission's desire to call in new entrepreneurs to redress the balance of the old is admirable, but the scales are being weighted far too heavily in favour of small-scale industries.

Certainly we must encourage small-scale industry; we all would like to see industrial enterprise diffused as evenly through the country as the limitations imposed by natural resources allow. But at the same time it must be recognised that, in modern industry, there are substantial economies of scale which usually make large-scale production more efficient. The threat posed by the concentration of economic power has been exaggerated. By international standards even our largest industrial units are not really big. Therefore, a negative policy of reserving certain sectors of production, such as the manufacture of consumer goods, for small-scale units, however admirable in intent, will make our economy less competitive and will retard its rate of growth. Instead, the small-scale sector should be encouraged to grow by a positive policy of developmental aid in the form of financial and technical services. The object should be to help the small-scale operator to overcome the initial handicap of limited resources and to become, after a period of assistance, a self-reliant unit in a competitive structure.

Simply to reserve certain sectors for small-scale units will restrict the normal growth of successful units and place a premium on smallness for its own sake.

Elimination of Repetitive Know-how

While on the subject of planned development, I would like to refer to the recent discussion on the possibility of eliminating repetitive know-how. It makes very good sense to save foreign exchange spent on getting know-how which the country already has or can herself produce. But notice some of the difficulties in assessing whether a particular know-how proposal is, or is not, repetitive. To begin with, the continuous process of technological advance often makes established know-how obsolete; and where new techniques improve the quality, or lower the cost, of production, it would not be to the national advantage to bar their import simply because we have already established production on what have come to be obsolete lines. Economies made possible by new techniques may well pay back, several times over, the cost of buying them from abroad.

Know-how in industrial production is not simply a question of disclosing a formula or handing over blueprints. Real technical collaboration involves a lot more. The collaborator participates in choosing a suitable site, determining the proper design of buildings, selecting and laying out plant and equipment, inspecting raw materials and helping to resolve all the problems experienced during the initial stages of manufacture. In short, the technical collaborator sells his experience as well as his technique, and a good collaborator helps to achieve the most efficient and economical production in the shortest time possible. It is for this reason that even the most advanced industrial countries often find it worthwhile to pay substantial royalties to secure the latest know-how from their competitors.

By all means let us, by careful scrutiny, eliminate the purchase of repetitive know-how which is unnecessary or wasteful, but it would be a false economy to shut out know-how which might help to make our industry competent at home and competitive abroad. And it is good to know that the government is not, after all, planning to canalise all technical collaboration through one central agency.

If I may now come to taxation :

Land revenue, although cumbersome to assess and expensive to collect, used to be a main, and indispensable, source of state revenue; and the rapacity of government and landlord like, which left the peasant with little incentive to better his lot, was a notorious feature of the pre-war rural scene. Since 1939, however, agricultural prices have steadily increased and government has sensibly resisted the temptation to raise the land revenue demand. This is sound policy. One consequence is that the farmer today is at last beginning to find some profit in his vocation. If he were not allowed to enjoy the new wealth he generates, he would not strive so hard to increase the yield from his land.

Rural Prosperity

When prosperity spreads to larger sections of the rural community there will be time enough to consider measures such as an agricultural income tax. Even now, some part of the new rural wealth does accrue to the exchequer through indirect taxes on the increasing volume of goods consumed by the rural sector.

But if we are all agreed in commending this policy of restraint in the rural sector should we not also examine the implications of extending it, albeit in a very qualified form, to the urban sector? Surely the urban sector also would react favourably to a lessening of the tax burden.

For the past many years the contrary policy of maximum taxation has held sway. We, in industry and commerce, have maintained that it has served to retard industrial development by reducing both the incentive to enterprise and the capacity of industry to finance its further growth. And today, when we might indeed be on the verge of an economic upsurge, a policy of moderation in taxation--on agriculture and industry alike—is likely to provide just the fillip we need.

Even that ingenious inventor of new taxes, Professor Kaldor, advocated a modest ceiling for income tax. Unfortunately, several innovations recommended by him to compensate for the proposed lower rate of income tax were adopted by government, but the major premise on which his entire logic was based was not accepted. Taxes on both corporate and personal income have been raised, well above the levels which Professor Kaldor considered to be self-defeating.

Sir, last year my predecessor welcomed your initiative in directing an examination of the entire tax structure. Mr Bhoothalingam applied himself to this task with characteristic speed and thoroughness. His interim and final reports represent a masterly analysis of an extremely complicated problem. The Associated Chambers have welcomed Mr Bhoothalingam's recommendations. In our view, they would contribute very materially towards removing the complexities and uncertainties of the tax system. They are also likely to raise its efficiency and lead to a substantial improvement in the collection of revenue.

But a comprehensive report of this nature cannot fail to contain some elements over which there will be some honest difference of opinion. We, on our part, have expressed our doubts about the efficacy of the proposed capital tax and the general excise. At a time of recession, when several industries are not operating at a profit, a new burden such as the proposed capital levy will have a very depressive effect and increase the ways and means difficulties which these industries already face. The proposal for a general excise would have our full support if it were to replace other parallel indirect levies such as the sales tax and octroi. But if these other levies

cannot be eliminated, to superimpose a general excise would inflate costs for industries which already are finding it difficult to market their products.

Mr Bhoothalingam has stressed that his various recommendations have to be regarded as one package. So did Professor Kaldor when he submitted his report twelve years ago. At that time government did not accept the whole package. Looking back over the intervening years there can hardly be any doubt about the damage inflicted by this policy of applying the stick while withholding the carrot, of imposing new levies without giving corresponding relief in income tax; it was an important, though not the only, factor in slowing down the rate of growth achieved in the first Plan period.

And now a word on labour :

Labour relations have been much better this year. There has been less general unrest and less destructive violence. A more regular supply of foodgrains at controlled prices and the firm line taken by most state governments against unconstitutional tactics like 'gheraos' have helped to bring this about.

Sympathetic Approach to Labour

The Associated Chambers have consistently advocated a sympathetic approach to labour relations and our members have kept well ahead of the industry-cum-region standards for wages and other terms of service. When any industry is in distress we would like to be able to count on the understanding and co-operation of trade union leaders. Unfortunately, they are as yet unwilling to acknowledge that any real advance in the material well-being of industrial labour must necessarily depend on improved productivity. Strikes, go-slow and other forms of non-cooperation contribute nothing to the revival of depressed industries. It is unrealistic to expect any improvements in wages, bonus and other conditions of employment in an industry which continues to operate at a loss.

In appealing to labour leaders for a radical change in their attitude, I cannot do better than quote from the Prime Minister's broadcast to the nation last September. She pointed out that "........strikes and closures will only slow down development. How can individual incomes increase if the national income falls? It would be unrealistic to presume that either the government or the country as a whole is yet in a position to provide each citizen with need-based wages. I can understand the reasons for the demand. But a country is like a family. It can afford to give only what it has."

The entire field of labour relations has been examined by the National labour Commission which is expected to submit its report in the near future. We trust that guided by its eminent chairman, the Commission will lay down guidelines for labour legislation and management-union relations which will reconcile the legitimate needs of labour with its obligations to increase production. Such a reconciliation is vital to the progress of our economy, and the Associated Chambers appreciate that its achievement is a two-way problem. Our members would willingly go more than half the way to meet union leaders, and to make a joint effort to resolve issues.

I now come to the vital issue of our balance of payments position which has dominated our development planning for many years. Until recently we were inclined to treat this as an intractable problem which would not yield even to such drastic measures as the devaluation of the rupee. Indeed, general disappointment at the failure of exports to spurt after devaluation raised doubts about the wisdom of that fateful decision in June 1966. The Associated Chambers did not share these doubts. We regarded devaluation as the formal recognition of a state of affairs which could no longer be ignored. Perhaps, after a time lag of two years, this year's export performance will provide a belated justification of the adjustment in the exchange value of the rupee.

Since last April our exports have perceptibly improved and it is significant that non-traditional exports have risen faster than those in traditional fields.

To some extent depressed markets at home spurred the export efforts by engineering and other industries not formerly prominent in the export field. But the main driving force behind this welcome change is surely the appreciation by all sectors of industry that, unless they themselves succeed in earning adequate foreign exchange, they would not be able to sustain their level of production. Over the last two years, aid and loans from friendly nations have been harder to secure. The writing on the wall has been clear for all to see, and it is encouraging that, instead of sitting back in helpless despair, many units in industry are making a determined effort to earn at least the foreign exchange necessary for their own essential imports of raw materials and spare parts.

The inability or unwillingness on the part of our friends to underwrite the foreign exchange element in our plans could indeed prove to be a blessing in disguise, if we at last are forced to rely on our own efforts to support the planned growth of our economy.

Less noticeable, but equally important, has been the progress in import substitution. In almost every industry it is heartening to find an increasing range of products available indigenously. This trend needs to be actively encouraged by government; despite the local availability of substitutes of adequate quality some imports, mostly for turn-key projects or to utilise residual balances in tied aid, are still being allowed.

Encouraging Export Performance

While we are encouraged by this improvement in export performance during the current year, a great deal more remains to be done before we can, with confidence, face the prospect of less aid from abroad. Industry, both private and public, must redouble its efforts to cover import requirements by export earnings. Exporters of traditional goods must become more efficient and at the same time identify more precisely areas in which central and state governments can help them to reduce costs. Industry and commerce must accept the main responsibility for exporting more and for importing less. Larger and better organised units must endeavour to achieve more to compensate for possible shortfalls in the performance of weaker units. This will not be an easy task. But unless it is accomplished we will have to abandon all plans of developing the national economy rapidly and all hopes of materially improving the standard of living of the common man.

Along with export promotion and import substitution serious consideration has to be given to ways and means of attracting substantial foreign investment. The Associated Chambers support government's declared policy of welcoming foreign investment. While foreign investment in any acceptable field serves to complement the limited flow of savings currently available to industry, such investment is of particular significance when it supports technical collaboration. A substantial stake in the equity of the joint venture is the best guarantee of wholehearted support by a foreign collaborator and we are happy to note recent indications of a more flexible and pragmatic policy. Speaking generally, we would prefer foreign investment to foreign loans. While loans usually involve a service liability which accrues before production is established, returns on investment only become due after the project becomes profitable. We would, therefore, once again urge government to create as favourable a climate as possible for attracting substantial foreign investment.

Government can encourage export efforts most effectively by creating the right climate in which exports are assigned overriding priority over all other objectives. Considerations of revenue should not be permitted to stand in

the way of encouraging exports and there must be a readiness to re-examine the whole structure of import and export regulations with this in mind.

A beginning could be made by drastically simplifying complicated and time consuming procedures on drawbacks and incentives. Over the years, new regulations, and modifications in old regulations, have been laid one on top of the other so that even the most helpful officers cannot ensure prompt disposal of cases. Marginal modifications can only increase the complexity of these unwieldy procedures. The situation may be likened to a window which cannot be opened and shut properly because its woodwork is covered with far too many layers of paint. The only thing to do with such a window is to scrape all the paint off, right down to the wood.

A satisfactory cleaning out of the mass of regulations that clogs export performance is possible only if it is recognised that the object of the exercise is to encourage exports. At present there is far more concern to prevent any possible abuse of these regulations than to make them effective in increasing exports. A great many small exporters have to expend more time and effort over their licensing, incentive and draw-back formalities than they can devote to expanding their business.

I would submit, Sir, that the negative policies of elaborate controls and over-regulation of industry and commerce have been worked out to their logical conclusion : frustration and delay. The time has come for an inspired lead toward the more constructive policy of mutual trust and cooperation between government and industry, and nowhere is this needed more than in the field of exports.

Our exporters must be fortified by the knowledge that they enjoy the full confidence and active support of our government. This applies particularly to traditional exports which often tend to be taken for granted, but which nevertheless continue to make the largest contribution to our foreign exchange earnings.

I do not propose to burden you, Sir, with a tiresome and familiar list of the export industries' grievances. It is the responsibility of each industry, whether in the traditional field or among those breaking new ground with their exports, to submit a detailed and reasoned case to the appropriate Ministry.

I am more concerned with the basic weakness of a policy which concedes too little and too late. All too often, measures of relief or support are forthcoming only after it is established beyond all doubt that we have lost ground in our exports of certain products; and by the time such measures become effective we have already lost substantial foreign exchange.

I submit that it is possible to improve on this policy. International markets do follow certain predictable patterns and it should not be beyond our ingenuity to anticipate these trends rather than always lag behind them. But to be effective, any such forward looking policy presumes close understanding and mutual trust between government and industry.

Such a change in government's policy would yield rich dividends in a substantial and sustained growth in exports. It would also serve to regenerate industrial development. Admittedly there are risks in extending one's trust to anybody. Like all other sectors of the populaton, industry has its blacksheep. But a forward looking policy must place greater emphasis on encouraging positive growth than on checking abuses. After all, we do not withhold full support to agriculture because some farmers hoard foodgrains in times of scarcity, nor do we abandon our democratic form of government because some politicians are self-seeking.

The most effective means of dealing with transgressors might be to hold in reserve an adequate force of officials, freed from the frustrations of trying ineffectively to regulate every aspect of industry, who will be in a position first, to identify the actual offenders, and then to ensure that they are promptly punished."

Morarji Desai Expects Improvement in Growth

MR DESAI, in his reply to Mr Wagle's address, struck an optimistic note in regard to the expansion of the economy next year. He said :

"I am happy to have this opportunity once again to meet the members of the Associated Chambers of Commerce and Industry and to exchange views on problems of common concern to industry and government. During the year that is now drawing to a close, we have overcome the grave difficulties resulting from two successive years of drought. Indian agriculture has taken a decisive turn towards higher productivity. There has been reasonable stability of prices and, for the time being at any rate, some freedom from the anxiety in regard to foreign exchange reserves which has become a part of our national life. Industrial production has shown some revival; and even the capital market is beginning to show some signs of life.

But there remain many difficult problems if the process of recovery and revival is to be carried forward into a period of steady and sustained progress. Progress in agriculture will have to be maintained and indeed accelerated; and the opportunity of larger crops will have to be seized to build up the buffer stocks that are needed to ensure price stability, in spite of the vagaries of the monsoon that are bound to remain with us. We still need to ensure adequate supplies of commercial crops such as cotton and raw jute. We have a long way to go before we achieve reasonable and efficient utilisation of industrial capacity already created; and this has to be achieved along with at least moderate capacity expansion in priority sectors. Exports have to be expanded and import substitution promoted as a matter of continuing necessity. The rate of savings and investment in the economy which has declined because of droughts needs to be raised to levels consistent with our desire to achieve adequate growth while reducing our dependence on foreign assistance. These are indeed formidable problems. They cannot be tackled unless there is a continuing dialogue between government, labour, industry and indeed all sections of our society. That is why I welcome occasions like this, on which we can discuss in a frank and yet friendly way the steps that each one of us should take to contribute to the common good.

You have referred, Mr President, to the reasonable expectation that this year's harvest will not be appreciably lower than last year's record. You have rightly pointed out that this shows that concerted action to provide farmers with the necessary inputs can largely overcome the vagaries of the weather. We cannot, however, become complacent because of the good output in two years. There are many problems still to be overcome. We have to ensure, for example, that the farmers get adequate supplies of credit. In many areas cooperatives can ensure this. In other areas, however, cooperatives are not strong. We are proposing to set up corporations in some states to provide the necessary finance. Commercial banks have an important role to play, both in mobilising deposits in rural areas and providing credit for inputs. The National Credit Council has advised banks to pay greater attention to these matters. It is not only a question of opening some branches in the rural areas. The financing of the movement of agricultural inputs from the factories to the farmers calls for new techniques of banking. I am confident that our banks will be able, in cooperation with industry and trade, to rise to the challenge.

There are problems of multiplying and distributing the new high yielding varieties on which we rely very heavily for agricultural improvement. We

have to raise speedily the domestic output of fertilisers, so that we may supply these to the farmers without heavy imports which we find difficult to finance. There is the need to develop water resources in a coordinated way. We do not as yet have the full picture regarding our underground water resources and how they can most efficiently be utilised; and we shall have to devote more attention to this and related matters.

In one sense, the very success of our efforts will produce new problems to tackle. We are all agreed, for example, that the farmer has to be assured that he can get an adequate return from investment on the land. It is because we wish to make entirely sure of this that procurement prices have been maintained at last year's high levels in spite of good crops for the second year in succession. But it would be wrong not to point out that as this policy succeeds, it raises difficult problems. Government has been incurring a substantial loss on the transactions in indigenous foodgrains as a result of keeping procurement prices high and the prices at which the foodgrains are issued to consumers comparatively low. We have been able to finance these losses because we have been making profits on the import and sale of foreign wheat. But as we reduce our dependence on imports—and it is clearly most essential that we should do so—this source of finance disappears. The choices are then to pay the farmers less, to charge consumers more or to subsidise at the expense of the general tax payer. The last alternative would clearly be detrimental to savings and investment. A balance will need to be struck, taking all the relevant considerations into account.

I agree with you, Mr President, that the increase in agricultural output has meant larger incomes for the entire countryside. Agricultural labour must have benefited through more employment and higher wages. But at the same time we cannot ignore the legitimate demand for greater equality. Nor can we fail to take cognisance of the fact that the higher rural incomes must necessarily provide a large part of the finance for further investment needed in coming years. In part, the farmers themselves will re-invest, not only in agricultural development, but also in processing activities and even in large-scale industry. This is all to the good.

Mobilisation of Farm Incomes

Farmers in some parts of the country are willing, for example, to purchase shares of fertiliser companies. The Planning Commission has advocated widespread issue of rural debentures in order to mobilise part of the increase in farm incomes for uses which will appeal to the farmers. But the farmers must also pay economic prices for the water and power that they buy. There is no way in which we can go forward with investments in major irrigation, if we actually incur losses, as is the case today. It will be necessary also to adjust power rates and improve efficiency so as to make electricity undertakings financially viable. The state governments may also find it desirable to tax the higher rural incomes whether through agricultural income tax or by way of surcharges on land revenue, in order to make possible investments in various spheres that they look after. It is for each state to decide how far it will go in this direction, in consultation with the Planning Commission. As far as the centre is concerned, we have told the states how much central assistance we can provide for the fourth Plan. In each state, a balance has to be struck between the size of the plan on the one hand and the extent of additional resource mobilisation on the other.

Excise duties and sales taxes on industrial products bought by the farmers —whether inputs, or preferably consumer goods—provides a valuable source of finance for the plan. But I can collect taxes only if you succeed in selling your wares to the farmer. I w's glad, therefore, Mr President, to hear that the Associated Chambers have undertaken some pilot studies in marketing in rural areas. I share your hope that your efforts will stimulate individual companies and trade associations to undertake specialised marketing surveys. In so doing, apart from adding to your sales and profits, you will also be serving me as honorary tax gatherers; and you may rest assured that your efforts will be amply rewarded—if not by reduction in your own tax burden, at least by more orders for your factories from the government. In making you this promise, I am of course having my eye on the larger taxes I will collect from you as you sell more to me. But I am sure you will agree that this is the only way in which you and the farmers and the country can march forward together.

The rise in agricultural productivity has been considerably greater in the case of foodgrains than in commercial crops. This is in large part because new technologies have been devised primarily for foodgrains. But the need to raise productivity in the case of commercial crops is equally great. The fortunes of our jute and cotton textile industries, two of our most important foreign exchange earners, depend heavily on supplies of raw jute and raw cotton. In terms of both quality and yield per acre, our performance is considerably below that of other countries. We need to devote considerably greater attention to the improvement of productivity in the growing of jute and cotton; and this is true also of oilseeds. In my last Budget, I provided some tax concessions to encourage industry to help farmers in this regard. It is my hope that the industries concerned will devote sustained attention to this task.

Revival in Industrial Activity

There have been, as you have pointed out, welcome signs of a gradual improvement in industrial activity. Industrial production this year should be around 5 to 6 per cent higher than last year. As is to be expected, the expansion has been led by consumer goods and agricultural inputs. But there are welcome signs also of pick up in output of capital equipment of various kinds. The production of trucks, for example, has gone up substantially. As consumer demand expands further, we can expect a further revival of activity in the capital goods industries. We must remember in this context that some of these industries, for example, those making cement and sugar machinery, were relatively little affected by the slowing down of industrial activity. I know that other industries and particularly many in this part of the country, were seriously affected. But in expanding orders for capital goods, we have to take care to see that the new investment that we undertake are those that we really need. It will be necessary for the industries concerned to continue to pay the greatest possible attention to export orders. I shall have something more to say regarding this later on in my speech. It is also desirable that these industries do everything possible to adjust output to meet the changing requirements of their customers.

As a result of the improved agricultural situation, the price level has on the whole been stable. Some fall in the prices of foodgrains has been off-set by the rise in the prices of commercial crops such as oilseeds and raw jute, and prices of manufactures have risen only very moderately. But we have to be constantly on guard to ensure that price stability is maintained. I have referred already to the need to step up buffer stocks which will play an important part in making it possible for us to hold the price line. But all our economic policies have to be so designed to ensure that growth is accompanied by stability. The latest round of increase in dearness allowances for government servants reflects the effects of inflation in the past. I know that equally wage costs have gone up for industry. Such increases in prices, resulting in higher costs and further price increases would only do the economy harm. If prices are to be stable, higher incomes must be matched by improvement in efficiency.

I agree that positive measures have an important role to play in promoting industrial growth, particularly the growth of small industries. Similarly,

we have to pay greater attention than in the past to securing the regional dispersal of industries, through provision of infrastructure and other facilities in the less developed areas. It seems to me, however, that simultaneously we cannot overlook the problems of monopoly and the concentration of economic power. Our industrial units may be small by world standards, but very often two or three of the largest units can dominate an industry. It is perhaps inevitable that the number of major industrial groups should be small; the fact remains that these control a sizeable part of industry. These are problems which all societies face. They are perhaps specially acute in developing economies. It is necessary to devise and implement policies which deal with these evils with the least damage to production. There can be no simple answers. In my judgement, legislation regarding monopolies, for example, will play a useful role. It will at least dispel vague fears of monopolies and concentration by providing a proper machinery for assessing actual trends and for distinguishing the undesirable from the necessary or the advantageous.

I inaugurated recently a seminar in Delhi on international investment, at which some of you may have been present. I was glad to note that Indian industry welcomes foreign investment and collaboration, and that our foreign friends took note of the many opportunities that this country offers. The government has, for its part, streamlined procedures for dealing with cases of foreign investment and collaboration. The industries in which we specifically desire foreign investment have been listed. The publication of the maximum rates of royalty that are acceptable should also help to cut out delays.

Role of Foreign Investment

As I said on that occasion, our welcome to foreign investment has necessarily to be selective. The foreign investment has to be fitted in with our development plans. But the expansions that we visualise in key industrial sectors are so sizeable that the role for foreign investment will continue to remain large and significant.

You have rightly stressed, Mr President, the importance of rapid expansion in our export earnings. In this city of Calcutta, it is natural that our thought should turn in the first place to tea and jute. Government has recently adjusted excise and export duties on tea, and has given financial facilities for re-planting, with a view to strengthening the tea industry. I hope that the industry, for its part, will go ahead vigorously with the re-planting programme. It is also my hope that the international marketing arrangements for tea will be strengthened in order to avoid any undue weakness in tea prices.

I know that at the present time the jute textile industry is facing difficulties on account of raw jute shortage. Government has been providing substantial amounts of foreign exchange for the import of raw jute. I am confident that the industry will overcome its current problems, and will continue to be a major earner of foreign exchange for our country by taking advantage of the growing international demand for newer products such as carpet-backing.

The recent improvement in export earnings has been due in part to the substantial expansion of the exports of steel and engineering goods. I am glad that in your view, Mr President, industry fully realises the need to build up long run export earnings. We have necessarily to rely on a substantial expansion of the export of the engineering industry to earn foreign exchange that we need. Those industrial units which play an important part in the export drive will be given special consideration by government in matters of capacity expansion, import of equipment and raw materials, and so on. The units with foreign collaboration are particularly well placed to undertake sizeable export effort and many of them have already done so. For the future, it will be necessary for us not only to require that exports should not be forbidden in collaboration agreements, but to give positive preference to the investment and collaboration proposals which are based on export of a substantial part of output to other countries.

Government will certainly do everything possible to remove any procedural obstacles to exports. The procedures for grant of drawbacks are being streamlined. The ministries concerned will give prompt and sympathetic consideration to any difficulties of individual trades and industries in connection with exports.

We have been able to raise industrial production while reducing imports. This indicates that we have made significant progress in import substitution. In the case of a number of projects, the proportion of equipment proposed to be procured indigenously is now substantially larger than was the case two or three years ago. We have to maintain this progress. I should like to make it clear that when equipment of adequate quality is indigenously available, there is no question of allowing the import only in order to utilise assistance. At the same time, the local suppliers must charge reasonable prices; they cannot take advantage of the protection provided by import control to exploit the user industries.

Outlook for Foreign Assistance

The outlook for foreign assistance is somewhat uncertain. It is my hope that other developed countries will follow the example of Canada and provide advance contributions to the International Development Association. This source of finance is of particular importance to us as it facilitates the import of essential components and raw materials on a global basis. We shall continue to keep in close touch with friendly countries and institutions abroad in this regard. As far as our own policies are concerned, the lines of action are clear. We must seek to dispense with the food aid as soon as possible; and we need to press forward vigorously with export promotion and import substitution.

You will not expect me to speak at any length about taxation. I have already referred to some problems with regard to mobilisation of the larger rural incomes for purposes of development. I shall certainly give very careful consideration to the suggestions made by various experts and representative bodies, including Associated Chambers. Government will continue to press forward vigorously with the improvement of tax administration and with measures to tackle evasion. As regards the level of direct taxes, it is argued that any relief can stimulate private savings and investment and so lead to higher tax receipts in later years. As you have however pointed out, the contribution made by the relatively well-to-do has to bear a fair relation to the indirect taxes paid even by the least affluent in our society. There is further the need to ensure that public sector outlays can expand at a reasonable rate without recourse to inflationary financing. Private industry should not rely unduly on government orders; but on the other hand, the relationship between the level of government spending and activity in the capital goods industries in the private sector is clear for all to see. I referred earlier to the need to dispense with concessional imports of foodgrains; the reduction in such imports makes it all the more necessary for us to develop alternative sources of public finance. Increased self-reliance, which is a most desirable development, has its implications also for internal resource mobilisation.

The picture with regard to many of these matters will be presented to you fully in the fourth five-year Plan, which will be published early next year. It is my hope and expectation that we shall see some improvement in the momentum of growth even next year, and thereafter build up to the higher rate of expansion of our economy that we would all like to see. Meanwhile, it is for associations like yours and for expert opinion in the country to explore dispassionately all avenues of orderly and sustained progress so that all the

experience and ability that we have in the country are brought to bear on official policy as on private endeavour."

Text of Resolutions

The Associated Chambers adopted unanimously the following resolutions :

Industry

While welcoming the more liberal attitudes that have characterised government's industrial policy during the last few years the Associated Chambers would emphasise the need for more liberalisation and the adoption of more positive measures of assistance if industry is to be enabled to make its maximum contribution to the country's economic growth.

In particular a special effort is needed to restore the fortunes of the large, traditional industries—including cotton and jute textiles, tea, coal mining, vanaspati and sugar—which for many years have suffered from neglect while resources have been concentrated on the development of the newer technologies. The traditional industries are the biggest employers of labour in the country, they account for more than 75 per cent of India's export earnings, yet the only time when they receive assistance from government is when they are on the verge of collapse. This attitude must change. The traditional industries are the back-bone of the Indian economy and it is therefore imperative that their decline should be arrested and that they should be restored to a degree of profitability which will enable them to fulfil the role they are uniquely qualified to play in contributing to and increasing the national wealth.

Taxation

For several years the Associated Chambers have been advocating a rationalised and stable tax structure which will provide industry with the incentives and the capital market with the stimulus necessary to revive the country's economy. With the recent upsurge in agricultural production, the time would now seem ripe for new fiscal initiatives designed to achieve this objective. The Chambers accordingly urge the acceptance, in principle, of the Bhoothalingam recommendations, in the confident belief that any temporary reduction in revenue receipts would be amply compensated by a rise in national savings, higher productivity and the resultant buoyancy in the revenues. In the implementation of the Bhoothalingam proposals, it is important that :

(*i*) taxes which hamper industrial development, such as the taxation of intercorporate dividends, should be abolished;

(*ii*) industrial efficiency should not be penalised by the continuance of existing measures such as the surtax on company profits, or the introduction of new levies;

(*iii*) companies should be taxed uniformly and there should be an end to discriminatory rates of tax, whether as between domestic and foreign companies or as between companies engaged in different types of activity; and

(*iv*) existing limitations on admissible expenditure should be reviewed and there should be no further curbs on expenditure hitherto considered as normal business expenditure.

Transport Planning

Notwithstanding the great expenditure of money and effort in recent years, the national transport system suffers from grave deficiencies which limit the speed at which the economy can grow. The Associated Chambers therefore recommend that a majort effort should be mounted to renovate and improve all forms of transport, and with regard to the three main arteries in the system, they consider that action should be undertaken on the following lines :

Ports : The facilities provided at the country's major ports are inadequate to meet the demands placed upon them, which causes serious delays to shipping and is detrimental to the interests of importers and exporters; their inadequacy adds to import and export costs, which adversely affects the entire internal economy. Apart from the removal of physical defects which have been studied and investigated by a number of expert bodies during the last decade with little or no concrete result, much scope for improvement lies in the more efficient utilisation of the facilities provided, inadequate though they may be, and in the modernisation of port management.

Railways : Although there may now be an overall sufficiency of railway rolling stock which has justified a slow-down in railway expansion, the fact remains that serious wagon shortages still occur with disappointing frequency. This is evidence of a need for the doubling of track facilities in selected areas and for considerably improved planning and operational control.

Roads : Many roads are in poor and indeed deteriorating condition, causing heavy and unnecessary wear and tear and costly maintenance of vehicles. Improved road maintenance is essential for better freight carrying services. A determined and adequate campaign for the expansion of trunk and secondary roads must be implemented to meet the needs of rural markets and artificial obstacles to inter-state road transport must be removed. Road building must be accepted as an essential feature of economic development and adequate funds provided in the fourth Plan.

Finally, since modern transport techniques such as palletisation and containerisation necessitate the easy transferability of traffic between different forms of transport, it is important that there should be centralised planning and close co-ordination in the development of the entire transport network, including the planning of airports and approach roads thereto.

Rural Marketing

The shift in national income from the urban to the rural sector and the net increase in income arising from greater agricultural production calls for a major marketing effort designed to bring a sufficiency of consumer goods within reach of the rural population. Only thus can the inflationary threat of this new purchasing power be met and the same time a desire for improved living standards be created which will serve as a spur to greater production. The Associated Chambers therefore consider that economic policy should be increasingly market-oriented, and in particular they would urge support for the following :

(*i*) The basic need to augment the supply of manufactured consumer goods by encouraging the growth of consumer goods industries;

(*ii*) Recognition of the importance of the market function and increased investment in the development of scientific marketing techniques;

(*iii*) Avoidance of restraints which would interfere with the ability of large-scale industry to supply the market with high-volume, low-cost consumer goods; and

(*iv*) As a corollary of the above, the removal of the restrictions imposed on marketing by foreign controlled companies under Section 18A of the Foreign Exchange Regulation Act.

Power Supplies and Tariffs

With the resumption of industrial growth a substantial increase can be expected in the demand for electric power. It is important that generating

and distributing capacity should keep ahead of this demand and that regional imbalances should be eliminated as far as possible by integrating the power systems of neighbouring states with a view to the establishment of regional grids and ultimately of a national grid. It is equally essential that electricity authorities should guarantee the quality of the power they supply and should avoid the voltage fluctuations, unnotified closures and abrupt breakdowns which have increasingly interferred with industrial production. Voltage fluctuations have been particularly serious because of the damage they cause to industrial plant.

The financing of this development and re-organisation needs long term planning. To attempt to finance it entirely out of current revenue is not only wrong in principle but would also impose a crippling burden on consumers who are already feeling the strain of frequent upward revisions of the tariff structure and of consequential increases in the duties levied by state governments. It is also basically wrong that higher rates should be charged to industrial consumers in order that concessional rates may be allowed to other users, such as rural consumers and favoured public sector undertakings. In the view of the Associated Chambers any subsidy to a particular class of consumers should be borne by the states, who should likewise meet the capital cost of the expansion programmes necessary if economic growth is not to be impeded by regional shortages and inferior quality of power.

Labour and Productivity

In the opinion of the Associated Chambers there is need for a massive effort by employers as well as by government to improve labour's awareness of the essential part that it must play in promoting industrial efficiency and growth. After all, the workers are the principal beneficiaries from improvements in productivity and it is the larger national interest that suffers disproportionate damage from ill-judged industrial action at the unit level. In seeking the co-operation of labour in the task of economic betterment that lies ahead, the Chambers would especially urge that :

(*i*) industrial efficiency and expansion are a pre-requisite for social advancement, and working conditions cannot be improved or remuneration increased unless the capacity to pay is first created;

(*ii*) the linkage between dearness allowance and the cost of living index is a self-defeating form of remuneration which pushes up industrial costs is inflationary and thus fails to protect the workers' real earnings. It should be replaced by a wage structure in which financial reward is directly related to productivity;

(*iii*) higher productivity being the overriding objective of government, employers and workers, it is in the workers' interests to be co-operative in introducing productivity schemes and to refrain from opposing measures of rationalisation or automation which are designed to improve efficiency and increase prosperity, thus ultimately expanding employment potential; and

(*iv*) industry cannot function efficiently unless there is whole-hearted cooperation between management and labour. This places an obligation on management to improve communications with labour and on the workers to eschew violence and coercion and to base negotiations on constitutional forms of consultation on the principle of collective bargaining.

Self-Reliance in Technology

While appreciating the great benefits of aid received from friendly countries and the necessity for India to keep abreast of modern technology, the Associated Chambers consider that for the promotion of a self-sustained economy there is need forgreater concentration on the development of self-reliance in technology. They therefore feel that before accepting foreign aid or importing foreign technologies and equipment it is necessary :

(*i*) to check that aid-giving countries are immediately able to supply the required materials or equipment not indigenously available in India;

(*ii*) to ensure that aid is not used for imports which are likely to disrupt the business of local manufacturers or retard the development of indigenous manufacturing capacity; and

(*iii*) to restrict the purchase of foreign technologies and capital equipment to items which are not available locally or which are necessary to keep indigenous technology up-to-date.

It would be wrong, however, to seek to achieve these objects by setting up a single centralised agency for the purchase of foreign technology, and it is important that all channels for the import of know-how should remain open. Moreover, the greater discrimination which the Chambers advocate does not imply that there should be any relaxation of the effort to attract foreign capital investments, for such investment is valuable in supplementing scarce local resources and also has the great merit of involving no repayment liabilities until projects have gone into production and are adding to the national wealth.

Resources for the Fourth Plan

If the fourth Plan is to be successful, it is imperative that it should be resource-based rather than need-based. The Plan must be designed to fit the available resources; and in the planning and allocation of resources, it is important that :

(*i*) subject to the discipline of market forces, industry should be left free to adopt realistic pricing policies and to achieve a degree of profitability which will generate earnings sufficient to finance development and expansion;

(*ii*) every effort should be made to tap the increasing wealth of the rural community; one means towards this end being the progressive withdrawal of subsidies on agricultural inputs as and when there is evidence that farmers possess the resources to purchase such inputs without assistance;

(*iii*) in order that private savings may make their full contribution to economic development, a favourable climate needs to be created not only by tax incentives and a reduction in the marginal rate of direct taxes on a selective basis but also by keeping inflationary forces in check. While the Associated Chambers recognise that, in the prevailing circumstances, substantial tax reliefs may be difficult to achieve in the immediate future, they nevertheless believe that an official declaration to reduce taxes at a suitable future date, particularly in the corporate sector, would act as a major psychological incentive in encouraging savings;

(*iv*) as a means of reducing the gap between resources and needs, vigorous efforts should be made to contain government expenditure and to obtain full value for money spent, by the use of conventional as well as modern techniques such as cost benefit analysis; and

(*v*) in order to make the best use of scarce resources, investments should be undertaken solely on the basis of merit, in the sense that finance should be channelled only into projects which give an assurance of yielding a satisfactory return in the reasonably near future. While the need to achieve a commercial profit in order to service invested capital would tend to be an automatic corrective in the private sector, this criterion is of particular importance in the case of the public sector.

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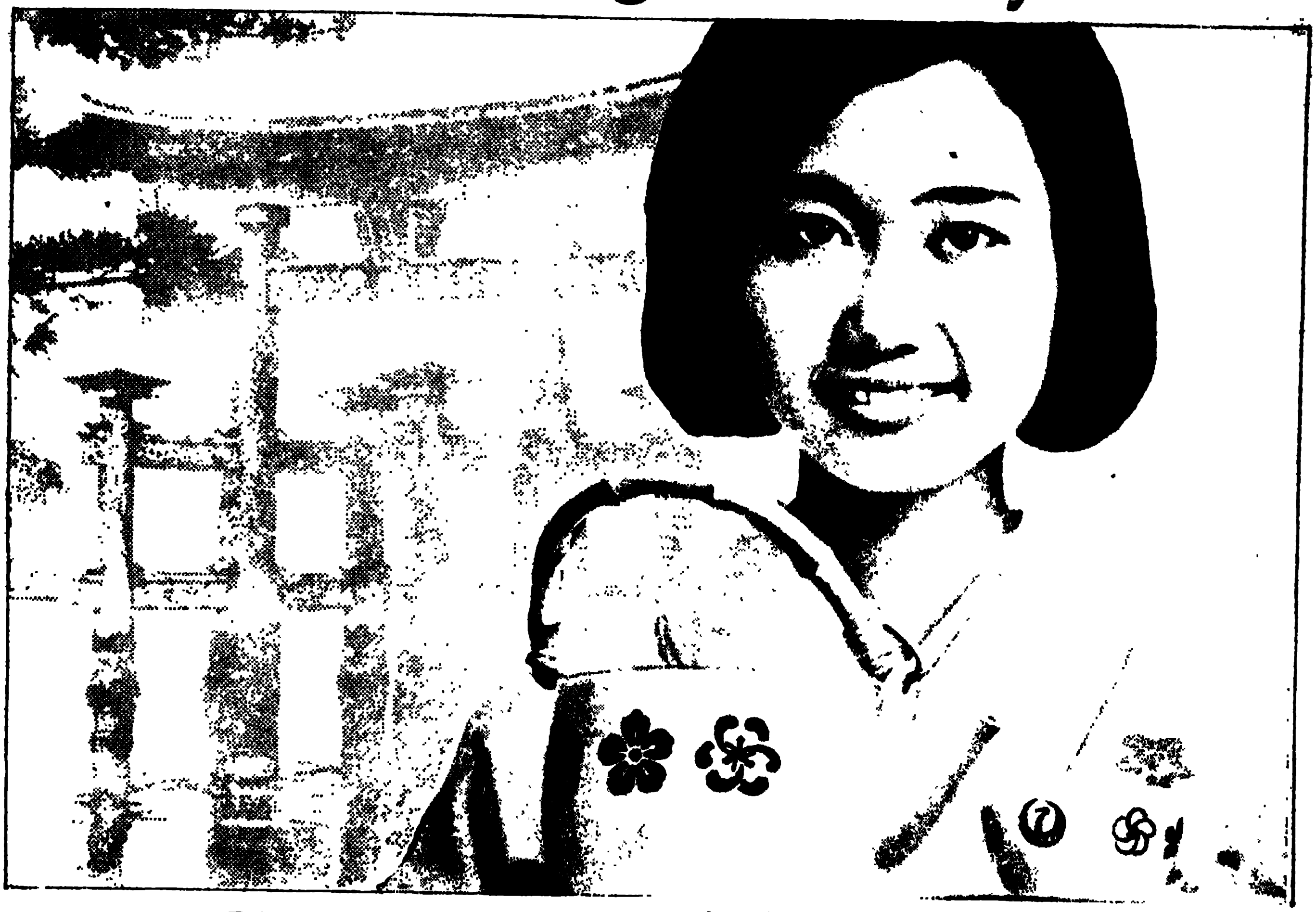

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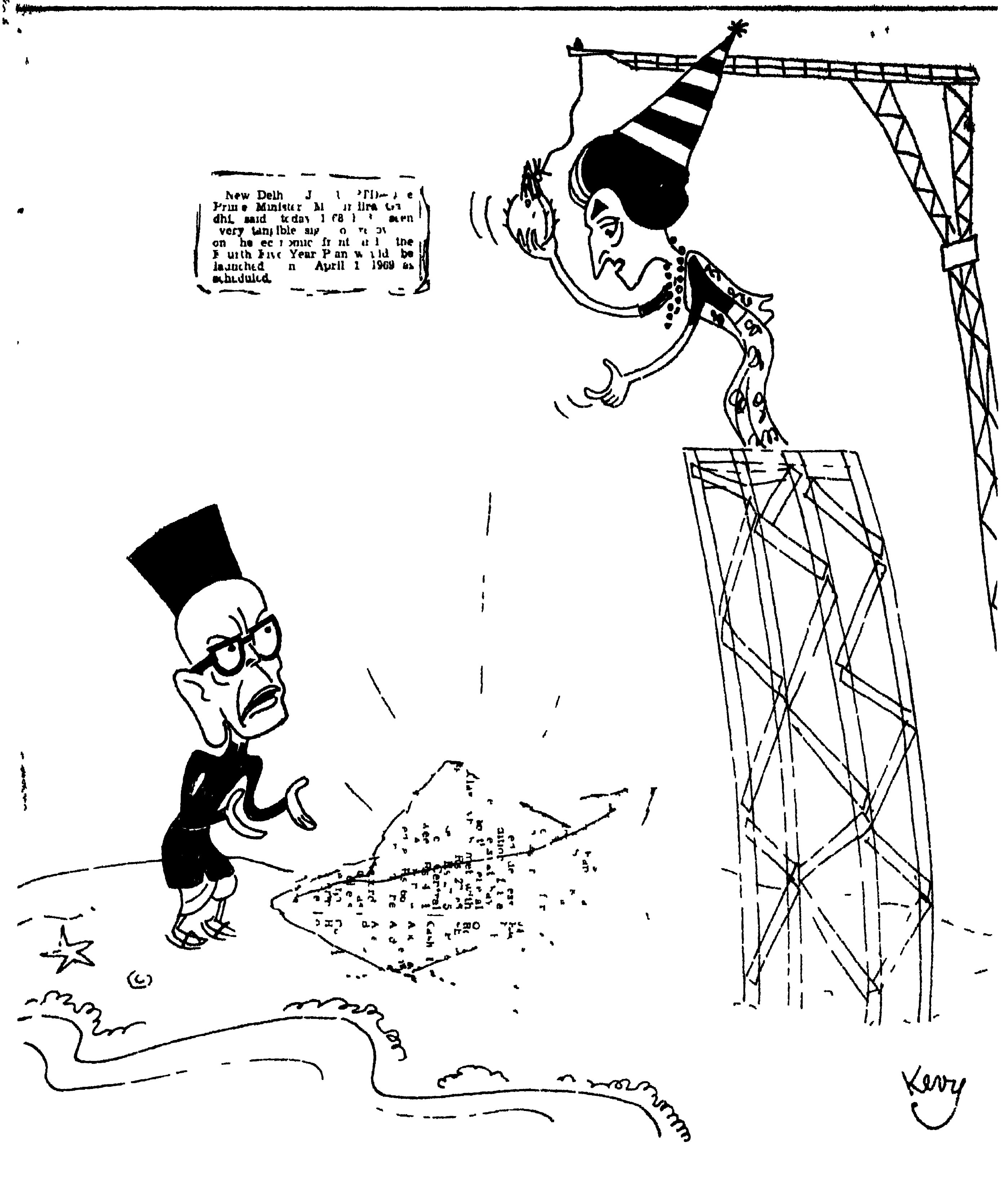

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Iran and In

THE NATION has been host to Their Imperial Majesties, the Shahanshah Aryamehr and the Empress of Iran. This has been more than a ceremonial visit by a Head of State. The Shah had visited India before and he has come here again specifically to contribute towards making Indo-Iranian relations more meaningful and purposeful. There has naturally been talk on this occasion of the traditional cultural ties between the two countries. Even more emphatically present in our thoughts has been the new significance which an ancient friendship is beginning to acquire in the contemporary terms of mutual economic benefit.

The Shah's visit has come about against a background of efforts made both in Teheran and New Delhi to explore opportunities of co-operation in trade and collaboration in economic development on truly dynamic lines. In particular, great importance is being attached to prospects of fruitful association with respect to the petroleum and fertilizer industries. It is, therefore, natural that the Shah's presence in our country and the talks he has held here should be expected to impart both urgency and concreteness to the various projects of Indo-Iranian partnership in trade or industry which may now be in different stages of processing or projection. That increased and intensified effort in this area would be worth the while of both countries is a reasonable assumption.

Already, the National Iranian Oil Company is participating in the establishment of an oil refinery in Madras, while the Oil and Natural Gas Commission of the Government of India has partnered IMINOCO (Iran) in the exploration of offshore oil in the Persian Gulf. Many private enterprises in India have shown an interest in setting up joint ventures in Iran. One such project, which has been licensed by our government, aims at producing automobile and tractor components and spare parts. There are also Indian projects or proposals for starting plants in Iran for steel rolling, soda ash, sewing machines, diesel pumps and engines. A scheme of more than ordinary proportions which may involve Iranian participation is the Tata proposal for a fertilizer complex at Mithapur. Thanks to its mineral oil resources, Iran is very favourably situated indeed to be associated with our programmes for fertilizer and petrochemical industries. The prompt setting up of a joint ministerial committee to take decisions on collaboration between the two countries in the technical, industrial and commercial spheres is welcome evidence of the earnestness with which the two governments concerned are addressing themselves to the economic aspects of the Shah's visit. A breakthrough in these areas of co-operation may well release new energies and influences which may transform Indo-Iranian trade which is at present rather meagre in volume as well as in range. The major part of India's imports from Iran will have to be mineral oil or its products. Nevertheless, there must be some scope here for diversification. The possibilities relating to Iran's imports from our country are perhaps more numerous. There is surely much that our trade promotional measures can do to establish and cultivate a market in Iran for the widening range of our manufactures.

The political aspects of the Shah's visit are, of course, too obvious to be overlooked. There is no denying the fact that the political relations between the two countries would bear improvement. The Government of Iran has been disposed to incline towards Pakistan in the latter's disputes or arguments with our country. It would be only too easy for our people to entertain a grievance against Iran on this score, but

this would be unwise because it would be profitless. If we find Iranian attitudes difficult, surely we should accept them as a challenge to our diplomacy and work to change them to our advantage. It is also to be borne in mind that our own foreign policy attitudes or manoeuvres in the region where Iran's vital security interests lie have not always been intelligent or well-informed. In dealing with the conflicts and tensions of West Asia, our foreign policy has not always cared sufficiently to keep its options open. Our general formula of "peaceful co-existance" has frequently proved to be vague and indeterminate in its application to the delicate realities of this troubled part of the world.

Fortunately, there seems to be a clearer conception in New Delhi now of the problems of security, both external and internal, which states, such as Iran, have to reckon with. The Shah's own impressive record in combating forces and factions of disaffection or disorder within his own country is now being increasingly appreciated in our country and simultaneously there is genuine respect and admiration among Indian observers of Iran for the dedication and enlightened statesmanship with which the Shah is applying himself and his government to the building of a modern and progressive community of his people, with rising standards of material wellbeing and freedom of social intercourse.

The government and the people of our country, again, cannot be insensitive to the implications of the Shah's present visit which has obviously been undertaken with the deliberate purpose of strengthening the old bridges and building new ones between Iran and India. Earlier our President, Dr Zakir Husain, and the Deputy Prime Minister, Mr Morarji Desai, had carried to Iran a message of goodwill from the people of this land and in the last few months, the Iranian Embassy here had been sparing no effort to promote closer contacts between the two countries. The present Ambassador of Iran in India, who has only recently joined his post, has had to undertake strenuous responsibilities in connection with the Shah's visit and it is yet another expression of the importance which the Government of Iran apparently attaches to the emerging new phase in Indo-Iranian relations that the Shah's visit has been so admirably planned and organised. The new year has begun well in a significant area of our external relations.

A Sigh of Relief

IN THE closing weeks of last year, cheerful news regarding increased foreign assistance from friendly countries enlivened the foreign exchange situation to some extent. Estimates at the beginning of the current fiscal year had indicated that this country would need about $900-1,000 million (Rs 675-750 crores) by way of non-committed aid in order to keep up the tempo of the economy and especially to utilise the extended capacity in different industries but during the first eight months total such aid received from the members of the Aid India Consortium was no more than $300 million. The shortfall being large, curtailment in imports on a large scale was widely feared. The US non-project aid equivalent to $194 million (taking the total obtained from the Consortium to about $500 million), the Belgian loan for £1 million and the West German credit to assist our shipping industry —agreements for which were signed in December— have bridged the gap somewhat and have raised hopes that important industries at least would not be starved of raw materials because of the paucity of foreign exchange.

The United States Agency for International Development (USAID) signed three agreements with the Ministry of Finance in December, according to which loans equivalent to $398 million (Rs 298.5 crores) were made available to this country. A loan of $194 million (Rs 145.50 crores) was sanctioned so as to cover imports of a number of our requirements in industry and agriculture. This loan is expected to be shared equally between agriculture and industry. The agricultural supplies will include fertilizers, pesticides, raw materials for the fertilizer and pesticide industries, tractors and tubewell drilling rigs. What is significant is that this loan is likely to finance, in association with the earlier US loans, about half of our total imports of fertilizers in 1969. The industrial imports will cover raw materials for the chemical, pharmaceutical, paper, engineering and other industries, including special steels, lubricating oils, spare parts and components. The total non-project aid made available to this country so far by the USA is roughly two-thirds of what was received last year.

The second loan from the USA, which is much smaller in size, at $37 million (Rs 27.75 crores) is expected to finance the expansion of the Trombay fertilizer plant from 135,000 tonnes of fertilizer nutrients to more than 500,000 tonnes a year. The expansion of this plant will be completed by 1972. The third loan equivalent to $197 million would ensure import of 2.3 million tonnes of wheat and sizable quantities of tallow, tobacco and non-fat dry milk. In the case of the Belgian loan, nearly 58 per cent is to be spent on imports from that country, the remaining 42 per cent being non-committed.

Almost simultaneously with the signing of the above agreements has come the Bonn government's agreement to provide a credit of Rs 60 crores for building our merchant fleet whose immediate target is to double its gross tonnage by 1972 and to transport half of this country's exports by its own vessels. Out of a loan of DM 300 million (Rs 56 crores) envisaged by the West German government for the next three years, a sum of Rs 18 crores is likely to be provided in the current fiscal year. The credit will be used for financing construction of new vessels by our shipping companies at West German shipyards. The terms of these credits are highly favourable. One-third of the credit will be in the form of capital aid, involving repayment in 25 years with seven years' grace period

and the rate of interest not more than three per cent. The remaining two-thirds of the credit will be for 10 years and the rate of interest will be no more than six per cent per annum. As against these terms of the West German loans, those of the US loans are much softer. The Belgian loan is for 25 years with a grace period of seven years; the rate of interest is three per cent.

While these loans are not expected to cover completely the foreign exchange gap but, in the absence of these loans, the foreign exchange position was rather difficult and the anticipated revival in industry (there was a rise of about six per cent in production in 1968 over 1967) would have been hampered. The trade gap, according to figures up to October, 1968, has been sharply declining in relation to that of last year due both to a rising trend in exports and reduced imports. If this trend continues, there is a possibility of the trade deficit this year being significantly lower than last year.

The prospects of our receiving a loan of $125 million from the International Development Association (IDA) have improved in recent weeks, especially after the visit to this country of Mr Robert S. McNamara, President of the World Bank and IDA. It may be recalled that the executive directors of the IDA had suggested early in 1968 that the economically advanced countries should agree to a second replenishment of IDA's resources at the rate of $400 million annually for three years. No less than eight countries, including Canada, the United Kingdom, West Germany, the Netherlands, Sweden, Italy and Denmark have agreed to augment the resources of IDA without waiting for the USA. Five of these countries—Canada, Denmark, Finland, the Netherlands and Sweden—have agreed to make available to IDA $17.52 million in supplementary contributions in addition to $133.68 million as their share to the second general replenishment. Norway has also agreed to make a supplementary contribution of $1.32 million, over and above its contribution of $10.68 million for the second general replenishment. These countries have, thus, gone beyond their originally announced contributions to IDA for the second replenishment. As we go to press news has been received that the financial protocol on aid to this country amounting to 185 million francs for the purchase of French goods and services was signed in Paris on January 4, 1969.

Now it can be reasonably expected that the paucity of raw materials in essential industries will not be a reason for slowing down their production in the current year. The recent encouraging trend in exports, reduced imports of foodgrains, the timely receipt of non-project aid (though not at the anticipated scale), the prospects of early receipt of at least $125 million from IDA (subsidiary of the World Bank), rescheduling of debt repayments up to $100 million and the utilisation of the non-project aid in the pipeline are all expected to remove uncertainties to some extent—if not completely—in regard to the foreign exchange position.

The Skachkov Mission

THE DEEP concern expressed by the Skachkov mission recently over the bleak prospects of orders for the three major Soviet-assisted projects—the Heavy Engineering Plant at Ranchi, the Mining and Machinery Project at Durgapur and Bharat Heavy Electricals, Hardwar—is understandable. Lack of orders will not only delay the reaching of the break-even points of these projects but may also damage the Russian prestige which had soared high after the successful working of the Bhilai steelworks a few years ago. The grievance reported to have been expressed by Mr Skachkov that certain central ministries are discriminating against the public sector units for the benefit of the private sector, however, seems to be an essentially subjective feeling and it may be added that complaints of unfair treatment have also been heard from the private sector.

In any case, the travails of the three Russian-aided projects have not surely originated from any discrimination by central ministries in booking orders with them. With a view to pushing the development of the public sector in our economy at an accelerated pace, the demand estimates of various products were pitched high in the second and third Plans. For instance, it was assumed that by the end of the third Plan i.e., by 1965-66, we would be requiring nearly 100 million tonnes of coal annually. The demand for steel was anticipated at as much as 14 million tonnes for 1970-71 and at nearly 20 million tonnes by 1975-76. The requirements of power were expected to multiply at a fast rate, the anticipation being that the installed power generation capacity would have to be raised to 35 million kW by 1975-76, almost equally divided into thermal and hydro power. It was to meet these high-pitched demands that the above three specialised projects were conceived. The Ranchi plant was designed to produce annually equipment for a million-tonne steelworks. The Durgapur project was envisaged to produce 45,000 tonnes of mining machinery (primarily for coal) per annum. The capacity to manufacture power equipment was proposed to be raised to 5.2 million kW a year.

May be due to adverse turn of events after 1960-61—the Chinese aggression in 1962, the conflict with Pakistan in 1965 and the withholding of aid by several western countries after this, the two severe droughts in 1965-66 and 1966-67 and the industrial recession following these droughts—the demand in these three key sectors has lagged very much behind expectations. If the prospects of orders for the three plants, therefore, are not promising, there is nothing surprising in it. On current indications, the Ranchi plant will run out of orders by 1971 if a decision is not taken expeditiously to expand the Bokaro steelworks from 1.7 million tonnes to four million tonnes; this plant is presently engaged in manufacturing equipment for Bokaro's 1.7 million-tonne stage. After the present orders are executed, the prompt processing of Bokaro's expansion will provide

work for the Ranchi project till about 1973. The outlook for the Durgapur plant is even worse. It may run out of orders even in 1970. As regards the Hardwar project, which is to be commissioned this year, clouds have already gathered over it, thanks to the stagnation of the demand for thermal power equipment. There are now on the order book six 100 mW turbosets (three each for Badarpur and Obra thermal stations) and nearly 20 hydrosets ranging in size from 5 mW to 110 mW for 10 hydro stations in different parts of the country; this may see this unit through up to 1971.

Although the target fixed a few days ago for the public sector outlay during the five years to 1973-74 suggests that efforts are to be made towards a fairly ambitious fourth Plan, how far this will help in utilising fully the capacity of the Ranchi, Durgapur and Hardwar projects remains to be seen. The sectoral dimensions of the fourth Plan programmes are expected to be finalised this month. A clear picture, therefore, may emerge only after this. Indications now available suggest that the steel programme will aim only at the expansion of Bokaro. Some provision for preliminary work on the expansion of the other existing steelworks or on setting up a new steel plant may perhaps be made. The coal target is likely to be fixed around 95 million tonnes. The addition to the power generation capacity may not be more than 12.5 million kW, of which a major portion will come from the power projects already under implementation.

This should suggest that it would be too much to assume that adequate work will emanate from the fourth Plan to feed the Ranchi, Durgapur and Hardwar projects. So other ways and means will have to be found to tackle the problem of underutilisation of their capacity. The two obvious ways are the diversification of the product patterns of these projects and the exploration of export possibilities. To some extent, diversification has already been attempted, especially in the Durgapur plant which is now producing equipment for iron ore mining and ports besides catering to the limited demand for the coal industry. But this is not considered sufficient for providing enough work for the project The diversification in the product pattern of Ranchi and Hardwar project is said to require substantial additional equipment. The Skachkov mission has assured assistance in this regard. There are, however, misgivings about the prices the Soviet Union may charge for the additional equipment. The proposition, nevertheless, needs to be pursued vigorously.

As regards exports of the products of the three plants, the assistance promised by Mr Skachkov is welcome. The Soviet Union is expected to take some equipment manufactured by these plants. More wholesome results should follow if the assurance about help for exports to third countries is implemented generously. This is because we already have a very favourable trade balance with the Soviet Union. Exports to this country can be stepped up in a large measure only if we are able to import more from there. After a rapid expansion of our engineering industry in the past few years, our trade with the Soviet Union has to undergo a substantial readjustment. As has been evident in the past two years, our requirements of conventional machinery and equipment which we used to get from the USSR have gone down considerably. On the other hand, our needs for sophisticated equipment and industrial raw materials are growing fast. How far the Soviet Union will be able to supply us these goods at competitive prices remains to be seen.

As any large-scale readjustment in the composition of our trade with the Soviet Union will necessitate the co-ordination of manufacturing programmes in the two countries to some extent, the exploration of prospects of exports to third countries, especially of Africa, West Asia and south-east Asia, should yield quicker results. The Soviet Union has promised to assist us in undertaking turn-key jobs abroad. But since exports of the products of Ranchi, Durgapur and Hardwar projects may have to be for a period much longer than envisaged at present, the development of consultancy services locally has to be fostered energetically.

Commercial Banks to Assist Agriculture

JUDGING FROM the discussions at the Seminar on Financing of Agriculture by Commercial Banks that took place recently in Bombay, it seems that the co-operative banks, Agricultural Refinance Corporation and the commercial banks have failed to meet fully the requirements of agricultural finance. The field to be covered is indeed vast. Only two instances, one mentioned by Mr L. K. Jha, Governor of the Reserve Bank of India, in the course of his inaugural address, and the other referred to by Mr B. Sivaraman in his address to the seminar on the opening day, should suffice to illustrate this.

As Mr Jha observed, modernisation of agriculture requires massive financial assistance. For, increased cash outlays are needed for agricultural inputs such as fertilisers and pesticides. The Venkatappiah Committee has envisaged that, by 1973-74, credit requirements for fertilisers alone would be of the order of Rs 650 crores. But this is not all. A demand for fertilisers of this order underlines, in its turn, the need for a more efficient and widely dispersed distribution machinery, and that means the credit requirements for distributive trade would also grow correspondingly. Then there are the minor irrigation schemes and these too will necessitate finance. The resulting spurt in agricultural output will create further demand for credit for marketing, processing and storage with the result that the credit gap promises to go on widening indefinitely, thanks to the 'green revolution'.

Mr Sivaraman referred to the almost incredible developments taking place in the Kosi area which, by the way, the President of the World Bank, Mr McNamara visited last November. In 1964-65, according to him, only 1,549 tonnes of fertilisers were utilised in the Kosi command area, whereas, in 1968-69, the utilisation went up to 40,000 tonnes, and, by 1973-74, this is expected to reach as much as 100,000 tonnes! Even so, we are

told, the supply would fall short of the optimum dosage required for the intensive high-yielding varieties programme. For the fertiliser needed in 1973-74, the credit requirement has been estimated at Rs 10 crores per annum. Mr Sivaraman has also roughly worked out what fertilisers and other inputs and their distribution would entail, which may be briefly summarised as follows:

1. For fertilisers and for storing grains in transit	=Rs 5 crores (capital investment)
2. For roads of various types to link the markets with national highways	=Rs 22 crores (to be financed by the state govt.)
3. Tubewell programme	=Rs 8 crores (to be financed by ARC)
4. Improvement of the drainage	=Rs 10 crores
5. Cost of electrical grid for connecting 18,000 tubewells	=Rs 10 crores
Total.	Rs 55 crores

As a result of this investment, the production in the area is expected to go up, by 1973-74, by 2.2 million tonnes, as against an additional output of 3,000 tonnes in 1964-65 compared to the previous year (1963-64). The additional income would be of the order of Rs 140 crores.

With this vast demand from just two districts in the country, Mr Sivaraman was certainly justified in remarking that "all talk of credit to the non-credit-worthy and support of small farmers becomes mere academic exercises." But he went on to ask: "Can the banking system tackle this vast problem before it?" The more pertinent poser would properly have been: "Can the country tackle it?" And that remains to be seen. Meanwhile, the country's major banks, which had all along been deliberately kept out of the agricultural credit sphere—a close preserve of the co-operatives—have demonstrated that, given the green signal, scope and facilities, they can be depended upon "to reinforce and sustain the green revolution which has taken place in agriculture", as the Reserve Bank Governor wants. Over the 12 months ending June, 1969, as was disclosed at the seminar by Mr B. N. Adarkar, Deputy Governor of the Reserve Bank, the 20 major commercial banks, with whom the National Credit Council (NCC) has had discussions, expect to increase their credit to farmers and also for financing agricultural inputs by Rs 51 crores as against the NCC's target of Rs 35-40 crores for all banks, and this too over and above their loans to plantations, subscriptions to Land Mortgage Debentures and loans for marketing of crops. Now that the co-operative interests have categorically conceded that the task is beyond them—and Mr Saraiya did so when he stated that the co-operatives can meet only 25 per cent of the agricultural finance needed and that they have neither the manpower nor the material resources to do more—and the Reserve Bank itself desires that commercial banks should come forward to fill the gap, what remains to be done is to ensure that there is no overlapping or competition between these two agencies in providing credit to the same party but co-ordination and complete understanding so as to ensure that no deserving or promising case goes by default only on account of credit. In order to ensure this a frank exchange of mutual experience not only between the co-operatives and the commercial banks, but among all the concerned parties, including the government (both central and states), the Planning Commission, agriculturists and dealers in agricultural inputs, is imperative and the three-day seminar sponsored by the Reserve Bank had precisely such an objective—to provide a forum for an exchange of views and ideas and for pooling their experience in regard to financing of agriculture.

Nobody expected that the seminar would produce decisions on which immediate action could be taken, but, as hoped for by Mr Adarkar, it did help in identifying matters calling for action by different agencies and also those that require further expert study. For instance, the seminar agreed that energetic and co-ordinated action is needed by both commercial banks and co-operative lending agencies to meet the large credit gap in the agricultural sector following the breakthrough that is now in process. While functioning in a manner as would strengthen rather than weaken the co-operatives—a fear incessantly haunting them—commercial banks were asked to adopt a selective area and/or a project approach. More particularly they were asked, in the initial stages, to consider financing the large credit demands likely to arise in the high-yielding varieties programmes or the intensive agricultural development programmes (those alluded to by Mr Sivaraman, for example) and a certain amount of inter-financing, *i.e.*, deploying commercial bank funds through co-operative agencies. Does the latter mean that co-operative agencies have come to the tether end of their resources and that they are in no position to

raise resources on their own from rural sources, Or does it suggest that the co-operatives cannot continue any longer to depend, at any rate to the same extent as before, on government grants, loans and subsidies? Whatever may be the case, inter-financing would presuppose a close and complete co-ordination between commercial and co-operative banks so as to reduce to the minimum unproductive and bad debts. For instance, a follow-up agency is a must to ensure that the credit given is utilised in full and for the specific purpose for which it is intended. The reports of the Public Accounts Committee on the working of co-operatives in different parts of the country do not seem to bear out that either of these or, in some cases, both can be taken for granted.

Another consensus at the seminar was that agricultural finance today must be package finance, that is, it should be available to cover the entire cycle of farm operations. Just as a physician has to treat the whole man, as Mr Saraiya put it, commercial banks have to become the Mayo Clinics of farmers. This would mean not only a vast network of rural branches but also an army of trained and experienced staff with the requisite frame of mind. Hence the suggestion, which must be welcome, to draw on the services offered by the various agricultural universities, Ford Foundation authorities and similar other bodies.

The seminar, it must be noted, did not forget t stress the problem of fostering the savings of the rural sector. Reports have it, for example, that the Punjab farmers made around Rs 200 crores from their last wheat harvest, but how much of it has gone into savings, more particularly into the banking sector, is anybody's guess. However, vigorous efforts are afoot by commercial banks to mop up these savings. One leading bank alone has a programme of opening as many as 100 branches in the next few years. The suggestion made at the seminar that it would be useful to devise a link between the borrowing facilities extended and deposits should be helpful to banks.

Finally—and this is a very important finding of the seminar—much depends upon what state governments will do to exempt banks from debt relief and other legislation and to assist them through proper and up-to-date maintenance of equitable mortgage facilities and grant of relief in stamp on agricultural mortgages and so on. It is gratifying to note that a suggestion was made at the seminar for the appointment of a high-level committee to review this problem. The Ad Hoc Committee of Bankers (the newly set up consultative organ of the Reserve Bank) may be expected to take up this work without any loss of time, as Mr Adarkar himself noted in his introductory speech that it would be the fourth stage (the other three stages, respectively, being the NCC's fixing of overall targets for bank lending to agriculture, fixing of targets for individual banks, and the holding of the seminar itself) in the Reserve Bank's programme of bringing about a redirection of credit policies and operations of commercial banks in favour of agriculture.

Outlook for Exports

THE GOVERNMENT of India—the Ministry of Commerce in particular—has reasons to feel gratified at the country's encouraging export performance in 1968 but if the new year is to see a distinct improvement in our exports over the preceding year, the official policies should become much more practical and helpful. What the Associated Chambers of Commerce and Industry said recently about the official attitude towards the traditional industries was no compliment to a government which, for nearly a decade, was supposed to pursue a policy of vigorous export promotion. The Associated Chambers, at their annual meeting held in Calcutta in December, deplored that traditional industries, including cotton and jute textiles, tea, coal and sugar, had suffered much from neglect for many years. These industries accounted for more than 75 per cent of our export earnings. But, according to the Chambers, "the only time when they receive assistance from the government is when they are on the verge of collapse". It is indeed ironical that the Indian Jute Mills Association and the Indian Cotton Mills Federation recently had to resort to extensive advertising in newspapers to focus the attention of the government and the public on the critical situation confronting their members because of official indifference to their difficulties.

In his address to the annual session of the Associated Chambers of Commerce, Mr Morarji Desai, the Finance Minister, devoted considerable stress on the urgency and importance of export promotion. He referred to the adjustments on the excise and export duties on tea and expressed the hope that the tea industry "would go ahead vigorously with the replanting programme", and that the international marketing arrangements for tea would be strengthened in order to avoid any undue weakness in tea prices. Referring to the jute industry, Mr Desai said that the government had been providing substantial amounts of foreign exchange for the import of raw jute and he felt confident that the industry would continue to be a major earner of foreign exchange. While these measures have been helpful to some extent, they are inadequate to enable these industries to strengthen their competitive positions effectively. So far as tea is concerned, it is necessary to remember that our main competitor now is East Africa where the industry is not burdened with export or excise duties. As regards jute, the incentives in Pakistan, coupled with the availability of superior and cheaper fibre, enable its industry to offer its products at more competitive prices.

Mr Desai assured the Assocham that industries which played an important part in the export drive

would be given "special consideration" by the government in matters of expansion in capacity as well as import of equipment and raw materials. He added that in the future collaboration agreements, the government would not only ensure that there was no restriction on exports but positive preference would be given to those agreements which provided for the export of a substantial part of their output to other countries. These steps are, of course, helpful. But it is necessary to emphasise that for a dynamic export drive it is imperative to pursue industrial and fiscal policies which will give scope to industries to grow to their full stature. But regrettably the government is still obsessed excessively with ideology. Mr Desai, for instance, sought to justify the measures now being taken by the government to control monopoly and concentration of economic power. "Legislation regarding monopolies," he said, "will play a useful role". But if, as feared by business circles, this legislation fetters industries from expanding and achieving economies of scale, it will certainly impede the country's efforts to attain an increasing share in world trade.

The Associated Chambers made many specific proposals regarding tax policy. They reiterated the need for a rationalised and stable tax structure which would provide industry with the incentives and the capital market with the stimulus necessary to revive the country's economy. With the recent upsurge in agricultural production, the time is ripe for new fiscal initiatives. The Assocham also recommended the abolition of taxation on inter-corporate dividends, the surtax on company profits and discrimination in the rates of tax between domestic and foreign companies, or between companies engaged in different types of activity. It further suggested that a favourable climate for industrial expansion should be created not only by tax incentives and reduction in the marginal rates of direct taxes on a selective basis but also by checking inflation. Dealing with productivity, the Chambers urged workers to co-operate with employers in introducing productivity schemes and to refrain from opposing measures of rationalisation or automation. The Assocham also expressed concern at the severe delay to shipping caused by inadequate facilities at ports, and the serious wagon shortages which still occurred with disappointing frequency. It suggested that a major effort should be made to renovate and improve all forms of transport. These proposals of Assocham deserve earnest consideration by the Government of India so that industrial production and expansion will get a real impetus which alone will help the country to achieve a high and continuous increase in exports.

Extracts from the speeches of Mr Morarji Desai and Mr W. W. Wagle and full text of the resolutions adopted by the Associated Chambers of Commerce and Industry were printed in the Records and Statistics section of 'Eastern Economist' dated January 3, 1969.

Cleaning the Augean Stables

EVER SINCE the three public sector steel plants commenced working in 1959-60 the operating results have given cause for concern and it has not been possible for Hindustan Steel Limited (HSL) to achieve a decent net return on investment even when there was effective utilisation of capacity and the output of salable steel amounted to 99 per cent and 91 per cent of rated capacity in 1964-65 and 1965-66. In these two years the residual profits were not flattering and in only one year, 1964-65, the earnings, after depreciation and interest charges, amounted to Rs 18.49 crores, which worked out to less than four per cent of the equity capital. The overall picture is dismal as the loss in 1967-68 amounted to as much as Rs 40.12 crores with the total of accumulated losses rising to the staggering figure of Rs 122.44 crores. The serious labour disturbances, a low rate of utilisation of capacity and high costs have been responsible for a big loss even though in 1967-68 sales were higher at Rs 251.77 crores against Rs 231.01 crores in spite of a decline in the output of salable steel to 2.42 million tonnes from 2.56 million tonnes in 1966-67. A larger proportion of flat products to the total output and increased prices were responsible for the larger value of sales.

There would have been some justification for the poorer working results of the last accounting period if they were due to the losses sustained on sales of exports. But it has been indicated that gross profits, before depreciation and interest charges, were even inadequate to provide for depreciation, the gross profit amounting to only Rs 38.27 crores against Rs 45.26 crores in 1966-67. After setting aside for depreciation Rs 53.80 crores and for interest charges Rs 24.59 crores, there was a residual loss of Rs 40.12 crores against Rs 22.94 crores. The allocations in respect of depreciation and interest charges in 1966-67 were Rs 47.65 crores and Rs 20.55 crores respectively. The decline in capacity utilisation in 1967-68 was due to reduced output and increase in the installed capacity due to the gradual completion of the expansion schemes of the three plants. It cannot be said that the increase in losses was due to heavy interest charges or depreciation provision alone as production costs had risen and the serious labour disturbances created unexpected difficulties. Since the expansion schemes of all the units have been substantially completed in the current year and the output may not be significantly higher in spite of a larger volume of exports, it would appear that heavier losses will have to be incurred in 1968-69 as well and a new record may be established in this direction!

What is, therefore, the cure to HSL's ills? When all the new units under the expansion schemes have been completed, the installed capacity would be 5.9 million tonnes of steel ingots, which would increase output by over 70 per cent from the level of 1967-68 by using effectively newly created facilities. It is expected that there would be a rise in exports but internal consumption of steel may not rise substantially,

leading to another year of losses. Indeed, even according to the calculations of the HSL authorities, the break-even point may not be reached before 1970-71. Under these circumstances the Ministry of Steel officials are worried about the state of finances of the largest industrial undertaking in the public sector and are wondering whether at all HSL would be able to earn a net return of at least six per cent on the gross block, which was nearly Rs 1,000 crores, in March last.

It has been suggested that with some manipulation in accounting and capital reorganisation the look of the balance sheet can be improved. But the ministry officials do not seem to be bothered about improving the health of the industrial units and bringing about a good look in the process. There will not be any objection to the suggestion that there should be a writing down of the value of fixed assets by Rs 200 crores in order to obviate the difficulties relating to the wiping out of accumulated losses through future earnings, providing for arrears of depreciation and so on.

As it is quite likely that aggregate losses will be about Rs 180 crores at the end of 1968-69 there will have to be a writing down of the value of equity capital by about 35 per cent. The losses would then be fully wiped out. But then it would be wrong to presume that merely through a capital reorganisation things would improve automatically. It has been suggested that there should be conversion of a good portion of the loans granted by the government into equity capital and there should also be a smaller provision towards depreciation on the straight line basis at five per cent instead of seven per cent, now adopted. These window-dressing techniques are not correct. For, the debt-equity ratio is not high in any sense, debts being only 98 per cent of equity capital whereas the general trend now is towards a debt-equity ratio of nearly 2:1 or at least 1.5:1. Hindustan Steel cannot at any time expect to service its equity capital on a reasonable basis so as to enable the government to avoid a loss in regard to its interest obligations over a period. If this government undertaking cannot pay interest charges on its debts even at six per cent when others are paying up to 10 per cent on borrowed funds and even 7.75 per cent on first-class debentures, the business of steel making will not be worthwhile.

In any case it would be dangerous to provide only five per cent depreciation on fixed assets which are functioning on a three-shift basis and when techniques are advancing fast in the developed countries. The best course would be to adopt a straight line method of eight per cent or at least seven per cent. But what is tragic is that even at five per cent the depreciation charges had not been earned in 1967-68, before providing for interest charges, suggesting clearly that the break-even point is very high.

It is no use complaining that the capital cost of the new steel units is very heavy and the fixation of retention prices for steel products on the basis of the capital employed in fixed assets by Tata Iron and Steel Company is responsible for HSL's poor performance. If new machinery costs more, there is the advantage of higher operating efficiency and a smaller labour force. Besides all the world over new plants are coming into being and the production cost of Japan and other countries are lower than those of our country. There may be some justification for higher internal prices to the extent the capital cost of a steel plant has been inflated by the levy of customs duties on import of plant and machinery and with the use of excised steel involved in indigenous machinery. There is some justification in the argument that the heavy losses are incurred on the running of townships, which amounted to over six crores of rupees annually. But the whole of this cannot be eliminated as there would have to be an increase in the emoluments to workers if satisfactory housing facilities were not provided. The disability in this regard may not be more than three crores of rupees.

It is overlooked all the time that our steel industry is favourably placed in regard to the availability of iron ore, limestone, dolomite, ferro-manganese, coal and other items. If Japan can make its steel on a cheaper basis even after importing all raw materials it is not known why HSL cannot. The only genuine difficulty relates to the utilisation of capacity because the calculations regarding an increase in internal consumption of steel products have gone seriously wrong.

There could, of course, be a stepping up of exports. But the losses on these sales could be borne easily only if reasonable profits were made on internal sales and the units were functioning efficiently and at a high proportion of rated capacity. The union Steel Ministry will, therefore, be justified only in carrying out a reorganisation of the capital structure at the end of the current financial year. It should always remember that no real advantage will be gained by lowering the debt-equity ratio. It will be only passing on its losses conveniently to the government. Moreover, it would be most unscientific to adopt a very low rate for depreciation on the straight line method. The most sensible course would be to carry out an expert study of the working of all the steel plants for adopting new procedures and techniques which would result in an increase in administrative and operating efficiency. If HSL cannot, with its advantages, function on a profitable basis, there is no prospect of the steel industry being developed on healthy lines. Indeed, the Bokaro steel project may incur heavy losses in spite of its concentration on the manufacture of flat products as its capitalisation per tonne of steel capacity will be much heavier because of higher prices and the built-in facilities for enabling future expansion. There is something seriously wrong with the thinking of the ministry and those incharge of HSL. The huge investment of Rs 1,000 crores must be made to yield satisfactory results. It is high time that the viability of the three public sector steel plants was improved. Fresh expansion schemes should be taken up only after the augean stables had been cleaned and HSL was beyond reproach.

Productivity in Heavy Engineering Industry

A Special Correspondent

THE REPORT of the study group formed by the National Labour Commission on the heavy engineering industry contains useful suggestions for improving productivity and production in an industry which is basic to the growth of the country's economy.

The report says that although production is a matter for works management, productivity is a matter for both management and workers. The economy cannot operate with maximum attainable efficiency unless the utmost is extracted from available capital, machinery, raw material and manpower. Any long-term solution to India's economic problems will not be possible unless we learn to produce more from a given input or, conversely, a given output can be produced at reduced input. The prime need is to appreciate that increases in the remuneration of labour must be linked with increases in productivity. The starting point of any scheme of incentive awards or payment by results should be fixing a norm of a fair day's work for a fair day's wage. Experience of the past years has clearly shown that a substantial expansion in exports of engineering goods cannot be achieved through normal economic stimuli. In fact, incentives in the form of drawbacks on excise duty subsidies, concessional freight rates and linking of import requirements with export performances have not produced much result. While these incentive schemes must continue, what is of critical concern from the point of view of expanding our exports is the high cost of production. In wagon building and structural fabrication our economic prices are about 11 to 25 per cent higher than the lowest prices tendered by outside parties. This gives an indication of the extent of uncompetitiveness of the prices of our heavy engineering goods in the world market. The high production cost is in no less measure due to lack of productivity and the consequent low utilisation of capital equipment. The solution of our export problem lies largely in improving this particular situation.

Under-Utilised Plants

Some time back, before the recession in the industry set in, an investigation of plant utilisation in the Calcutta area produced by a consultant for the US Technical Co-operation Mission showed that most of the plants were operating at 30 to 40 per cent of the scheduled efficiency on a single shift basis.

There are three distinct areas where productivity is a matter of concern, namely management methods, equipment and labour, but labour productivity, particularly in the field of heavy engineering industry is not in a good shape. It is admitted that the wage content in the price of an engineering product is comparatively low. The question has, therefore, often been raised: do not the employers lay undue emphasis on the productivity of workmen? The reason for this emphasis is not the saving in wages as a result of increased productivity but the fact that this increased productivity results in a higher output from the same resources. It is well known that workmen in this country can increase, in some cases, their productivity by as much as 150-300 per cent. Even assuming an increase of 100 per cent in labour productivity alone, it can be worked out that the production costs in the heavy engineering industry would be reduced by as much as 25 per cent on this account only. The other elements of production costs are raw materials and overheads. As regards the direct savings in materials at the plant level, they can be limited to reducing wastage and stocks. While this saving must, of course, be done, it is unlikely to be more than say 10 per cent of the cost of materials or only 5 per cent of total production costs. But it must be remembered that a raw material of one plant is the finished product of another; in this latter plant there is once again full scope for increasing labour productivity and a higher saving in costs.

One can buy a man's time or physical presence at a given place and even buy a measured number of skilled muscular movements. But enthusiasm, initiative, discipline, loyalty and devotion cannot be bought for money, although these are the prime sources of the human will to work. And without the will to work there is no real productivity, whatever may be the inducement offered by incentive schemes. Also, the understanding that incentive payments have to be earned is often lacking. More often than not, workmen take incentive payments to be an adjunct to dearness allowances. Instances are not scarce when, in spite of guaranteed fall-back wage, there are breaches of industrial peace when earnings from incentive schemes fall on account of recession, machine breakdown or material shortage. Incentive payments should be allowed only if the output has successively passed inspection and tests. Whether it is a group incentive or otherwise, it is desirable that incentive payments do not fluctuate very much, but in the current controlled economy and uncertain market, some fluctuations cannot be avoided altogether. The other important point to note is that under a group incentive scheme, sporadic individual efforts are not good enough; it is the result of the group or the team that counts; the whole cannot be substituted by the parts.

It is unfortunate that in the engineering industries of this country incentive schemes are not commonly in operation. Barely about 10 per cent of the existing establishments have such schemes. Employers must, in the interest of the industry, employees and themselves, introduce sound incentive schemes as early as possible. There are, perhaps, reasons why incentive schemes are not more prevalent in the

engineering industries in India, such as the over-licensing of capacity.

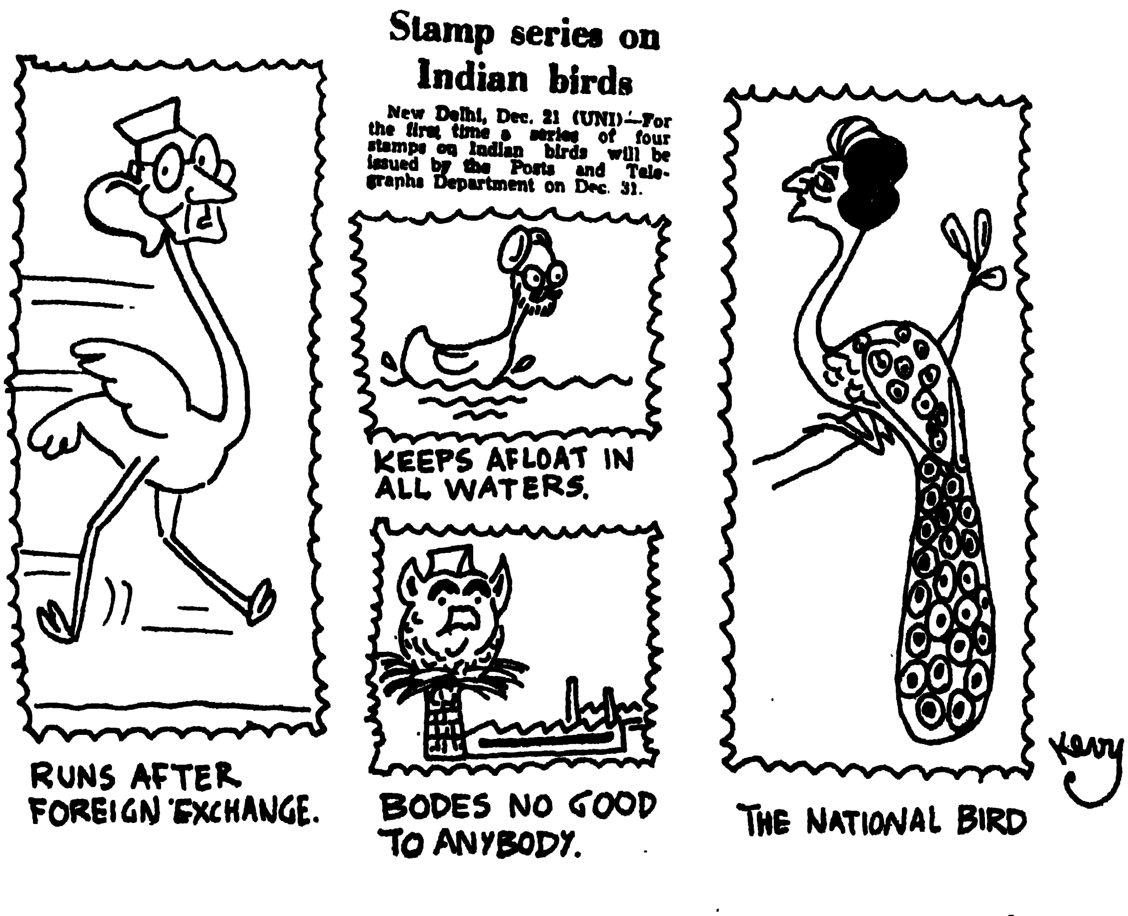
The level of normal production of a unit should be determined by the management from time to time depending on plant and machine capacity and manufacturing methods, and having regard to the competitiveness of the market from time to time, the company's ability to secure orders and also the fact that the company's operations should be on a profit basis so as to satisfy the investors as well. In regard to productivity incentives no treatment of productivity would be complete without discussion of incentives with the employees. After establishing the best methods, the management should establish the best times for the jobs allowing for fatigue etc., and fix the normal production levels. The initial point of output for bonus commencement related to the production target should be fixed after discussion with the recognised union. Similarly the quantum of bonus payment at different stages of production should be incorporated in the scheme in consultation with the union, bearing in mind that they cannot be divorced from a realistic consideration of plant economy, order book and market competitiveness. Whether it should be group incentive, a batch incentive or a piece-rate system should be decided by the management in consultation with the union in consideration of the various factors affecting the shop conditions and job requirements. Many standard books are available for consultation. The productivity programme should be entrusted to sufficiently experienced personnel who are adequately conversant with the shops concerned. Preferably, this should be entrusted to a separate industrial engineering department, hired or employed and having the same status as the personnel or accounts department. In smaller units, perhaps one industrial engineer would be sufficient, while in larger units, a more elaborate organisation, hired or employed would be necessary.

The study group refers to a finding of the Economic and Research Foundation in an analysis entitled "Productivity, Wages and Prices in Indian Industry" that all wage increases linked with the cost of living index are self-defeating. They benefit neither the wage earners nor the economy. The findings of the foundation, based on an analysis of the organised manufacturing sector in general and on selected industries in particular, are that in any economy dependent primarily on agriculture, all attempts to push industrial wages faster than national per capita income are self-defeating and inflationary, since they ultimately end up by raising prices by that much margin.

Incentive Earnings

Referring to the draft of the fourth five-year Plan which recommends that the total wage should have three components namely the basic or minimum wage, an element related to the cost of living and an element related to increase in productivity, the group suggests that 75 per cent of a day's work as determined on scientific lines should be taken as the standard production or base against basic wages and dearness allowance. This will leave a margin of 25 per cent production for incentive earnings by extra performance.

The National Productivity Council, the group says, has been partly successful in creating a climate for productivity among employers. Employees, however, are not enthusiastic as has been admitted by many productivity councils. The National Productivity Council and the local productivity councils must now carry the message of productivity to the plant level. Employers who are now mentally prepared to adopt productivity techniques find that there is a vacuum when they wish to engage consultants who can give them concrete projects after surveying their plants. The National Productivity Council through its local agencies can fill this gap.



Should Agriculture be Taxed?

M. R. HAZARAY

THE PROBLEM of raising resources for the fourth five-year Plan is undoubtedly formidable. However, it is by no means an insoluble one, given a bold and imaginative policy on the part of the central government. The dim prospects of foreign aid on easy terms and the ever-increasing burden of debt servicing leave no alternative to the government other than intensifying its drive for effective domestic mobilization of resources.

Not much can be expected by way of surpluses from streamlining the performance of the public sector undertakings if past experience is any guide. The government, therefore, must look for additional resources in the direction of voluntary savings through branch-banking under social control of banks and forced savings through taxation of agricultural communities.

At the last meeting of the National Development Council, the Prime Minister rightly stressed that we cannot talk of progressive elimination of PL 480 grain imports and reduction of foreign aid without devising ways and means for raising necessary additional resources within the country. It is evident that mobilisation of resources must take full cognizance of the fact that a part of the annual increase in national income will accrue in the rural sector and particularly to progressive group of farmers who would be greatly benefited by the development efforts of the government.

It is also realised that there is little or no scope for increasing the burden of taxation on the non-agricultural sector which pays anything between 81 to 96 per cent of its additional income into government coffers at present. On the contrary, there is need for relief to the old, sick and recession-hit industries so that their full capacity might be utilised in the foreseeable future. The need for making the overall taxation policy saving and investment-oriented was never so obvious.

Economically Sound

The suggestion of the Planning Commission to levy agricultural income-tax is therefore economically very sound. Rather it must be acknowledged that it was long overdue. For instance, as early as 1953, the Taxation Enquiry Committee headed by the late John Mathai had hit the nail right on its head when it said, "the level of urban taxation is on the whole higher at all stages of income than that of rural taxation; urban indirect taxation is somewhat more progressive than rural taxation. There is a greater room for increased taxation of higher rural incomes than in the case of urban incomes. The incidence of land revenue is not appreciable any more and large area of non-monetized sector in the rural economy is at once an index to the limits of taxation and a pointer to the possibilities of extending taxation to this field if it otherwise be considered desirable".

The case for agricultural income-tax has become still stronger since then. During the period of planning apart from a small section of farmers say 20 per cent at the most (who in any case must be exempted from agricultural income-tax) the agricultural, rural community as a whole has benefited much by plan outlays on rural finance, co-operatives of all types, community development and irrigation projects and national extension services.

Apart from this, farmers have also realised higher prices for their crops, as our plans throughout tended to produce scarcities of even essential staple commodities under mounting pressures of inflation and population. As a result, there have been continuous increases in agricultural incomes. In fact, the inter-sectoral terms of trade have definitely gone in favour of agriculture. The wholesale price index of agricultural commodities increased by 93 per cent between 1950-51 and 1966-67 while that of industrial commodities increased by only 62 per cent over the same period.

Moreover, the incidence of land revenue which figured very prominently in the state budgets and which had no relation to agricultural productivity, income or prices has gone on declining from 25 per cent for the first Plan period to 9.6 per cent in 1967-68. It may soon lose its importance as some of the states such as Kerala and Orissa have planned to abolish it partially or wholly.

The Nijalingappa committee's recommendation in this context deserves serious consideration. It states: "Water rates should be on the basis of suitable percentage of additional net benefits to the farmer; from an irrigated crop where with available data this can be worked out. These rates may be fixed at 25 to 40 per cent of additional net benefit keeping in view factors like rainfall, water requirements, yields, value of the crop, etc. Where benefits are not workable on the basis of available data some suitable percentage of additional gross income say 5 to 12 per cent may be taken to start with, to be calculated upwards and reviewed every five years."

It is unwise to relate agricultural taxation to inevitable and unpredictable reverses in the general elections politically. Instead an integrated agricultural income-tax would be rewarding in several ways. It will make the rural community plan-conscious. It may prove an instrument of much needed change in social outlook. It may prevent likely evasion of taxes when industrial profits are diverted to profitable investment in agriculture and finally it may provide to the government an ever elastic source of revenue for planned economic development in future.

Eastern Economist 25 Years Ago

JANUARY 14, 1944

Bengal's cup of misfortune is so full that even the isolated bits of good news from that province should be tainted with frustration. As the rushing of grain supplies, the organization of widespread relief and the intervention of army help slowed the pace of famine destruction, and the forecast of bumper aman crop raised hopes of finally lifting the curse of a generation, reports say that there is a serious shortage of labour for harvesting the new paddy crop which in many districts stands ready to be harvested. Timing is of the utmost importance in the raising of the paddy crop at every stage from sowing to harvesting and if the paddy, when ready, is not removed from the fields for storage its rapid decay either as crop or as grain is inevitable. Unforeseen rains or storms would make the situation worse. Death, disease, and devitalization are the causes of the present shortage of labour. In addition to famine and starvation, a deteriorated public health is aggravating these conditions. Bengal is now in the grip of an epidemic of malaria, small-pox and cholera which threatens to outstrip the influenza epidemic of 1918 in severity. Owing to shortage of quinine supplies whole families are bedridden, with no one to look after the fields. Devitalization is so acute that even high rates of wages are not attracting labour. The epidemic has only begun, with the harvesting season, and if the situation is left to drift it is obvious that the aman crop will not contribute to the alleviation of food scarcity, and to that extent the pressure on the food resources of the rest of India will not be relieved.

Economic Stagnation of Uttar Pradesh

P. K. BHARGAVA

AFTER TWENTY years of Independence and 17 years of planned economic development Uttar Pradesh remains one of the most backward states in India. It has the largest population and it is the fourth largest in area amongst the states of this country. According to the census of 1961, the population of Uttar Pradesh was estimated at 73.7 million which formed 16.8 per cent of our population. It has an area of 113,654 square miles which is approximately 9.65 per cent of the country's total area. The density of population in Uttar Pradesh was 649 persons per square mile compared to a density of 370 persons per square mile in India. In 1966 its population was estimated at 82.4 million(1) which was approximately 16.5 per cent of the country's total population.(2) By 1971 the state's population is expected to rise to 92 million (1) and will then account for nearly 17.5 per cent of the country's population which is expected to rise to 526 million.(3)

The proportion of the country's population living in Uttar Pradesh has remained broadly unchanged and is not likely to change appreciably in the years to come. During the decade 1951-61 total investment in Uttar Pradesh amounted to Rs 724 crores which was approximately 7.2 per cent of the total investment of Rs 10,110 crores in the country during the same period.(4) During the quinquennium 1961-66 total investment in Uttar Pradesh was estimated at Rs 1,000 crores constituting 9.6 per cent of the total investment of Rs 10,400 crores in India during the same period.(5) During 1966-71 this proportion is likely to fall to 5.8 per cent as only Rs 926 crores are expected to be invested out of a total investment of Rs 16,000 crores for the whole country.(6) Thus the proportion of investment in this state out of the total investment in the country as a whole has been decreasing whereas the proportion of the country's population residing in this state out of total population has been more or less constant. The inevitable result has been declining per capita income in this state and a diminishing contribution of Uttar Pradesh to the country's national income.

Per Capita Income

The per capita income of Uttar Pradesh in 1950-51—the last year of the pre-Plan period—was Rs 258.3 (at 1948-49 prices) which rose to Rs 265.4 in 1955-56.(7) The per capita income of Uttar Pradesh has increased relatively slowly and in some years it actually declined. It declined from Rs 250 in 1960-61 (at 1960-61 prices) to Rs 248.1 in 1961-62, to Rs 242.1 in 1962-63 and to Rs 237.5 in 1963-64.(8) On the other hand, the per capita income of India (at 1948-49 prices) increased from Rs 247.5 in 1950-51 to Rs 267.8 in 1955-56. It increased further to Rs 293.2 in 1960-61 and to Rs 317 in 1964-65.(9)

The contribution of Uttar Pradesh to the country's national income was greater in 1950-51 than during the successive years of planning. It contributed 18.4 per cent to the country's national income in 1950-51(10) but only 13 per cent in 1960-61 and 12.8 per cent in 1963-64 (provisional).(11) It may also be pointed out here that the per capita income of Uttar Pradesh was "5 per cent above the all-India average in 1951 but 12 per cent lower than that in 1959".(12)

In a study by the National Council of Applied Economic Research regarding "inter-district and inter-state income differential in 1955-56" relating to 289 districts of the country, it was found that out of the 29 most backward districts in the whole country, with a per capita income of Rs 146 and Rs 173, eleven such districts were in Uttar Pradesh. Thus Uttar Pradesh had 22 of the 58 poorest districts of the country. Another depressing feature which this study revealed was that nearly 35 to 40 per cent of the state's population was living in these 22 districts of the country and the daily per capita income in these districts was reported to be as low as 27 paise. Thus in a state where people's income is just at the level of subsistence or even lower, it is correct to conclude that, "when incomes are so low, it is impossible to set aside any significant part of them to secure the tools which would enable incomes in future years to be increased."(13)

The consumption expenditure in Uttar Pradesh is also relatively lower. According to the National Sample Survey, in the 12th round relating to the period from March, 1957 to August, 1957 the per capita consumer expenditure in Uttar Pradesh was Rs 17.12 and Rs 23.27 per month for rural and urban areas respectively.(14) The corresponding per capita expenditure figures for the country as a whole were Rs 17.31 and Rs 26.50 per month respectively. In the 13th round relating to the period September, 1957 to May, 1958 the per capita consumer expenditure per month in Uttar Pradesh was Rs 17.81 and Rs 22.34 for rural and urban areas respectively. The average per capita consumer expenditure of rural and urban areas was Rs 18.59 and Rs 25.68 respectively in the country.(14)

Plan Outlay

The per capita Plan outlay and per capita central assistance has also been much lower for Uttar Pradesh as compared to other states. The per capita Plan outlay during the first three Plans in Uttar Pradesh was Rs 24, Rs 34 and Rs 68 as against the average per capita Plan outlay for all the states at Rs 40, Rs 52 and Rs 92 respectively.(15) Similarly, due to the negligence of the centre the per capita central assistance in Uttar Pradesh was only Rs 14, Rs 18 and Rs 47 during the first three Plans as compared with the average per capita central assistance for all the states at Rs 25, Rs 27 and Rs 56 respectively.(15) As a result, Uttar Pradesh has been left behind in the path of national progress in many fields. We may agree with Mrs Sucheta Kripalani's observation when she was Chief Minister of Uttar Pradesh that, "Generally speaking also, the state is still one Plan behind other states". (16)

Uttar Pradesh lags behind with regard to many essential social and developmental services such as education, medical and public health, transport and power, etc. According to the 1961 census, the number of literates per thousand of persons was only 176 in Uttar Pradesh as against 239 for the country as a whole. Similarly, the per student revenue expenditure on education in Uttar Pradesh in 1961-62 was Rs 36 as against an average expenditure of Rs 44.04 for all the states.(17) The situation in the field of medical and public health is also not satisfactory. The number of hospital beds for 100,000 of population in 1965-66 was 34 for Uttar Pradesh as against 55 for all the states.(18)

Transport is vital for economic development and is a good indicator of economic progress. At the end of March, 1961 surfaced road mileage in Uttar Pradesh was 17 for 100,000 of population as against 31 for all the states.(19) Being a relatively poor state it had a higher unsurfaced road mileage of 66 at the end of March, 1961 as compared with an average of 63 for all the states.(20) The poverty of this state is also reflected in its low per capita consumption of electricity. In 1963-64 the per capita consumption of electricity in Uttar Pradesh was 24.2 kW, nearly half of the average per capita consumption of

This article is based on the author's Ph.D. thesis "Uttar Pradesh's Finances Since Independence"

electricity for all the states which stood at 47.8 kW in that year.(21)

Judged from the above criteria one can notice that Uttar Pradesh has lost its relative importance during the planning era and the state is bogged down in a grave situation of poverty and distress.(22)

Uttar Pradesh is primarily an agricultural state. Agriculture provides employment to over 75 per cent of the state's working population and contributes about 60.9 per cent of its total income.(23) The state possesses a large and rich alluvial tract in the Gangetic plains and possesses a large potential for irrigation. However, the agriculture of the state is relatively backward and it has to import foodgrains to feed its population. The index of agricultural production during 1951-61 increased by 39.4 per cent in Uttar Pradesh while the increase amounted to 46.3 per cent for the whole country during the same period.(24) The index of agricultural production in 1963-64 in Uttar Pradesh stood at 83.5 (base years: 1960=100) as against 100.3 for all the states in that year. This is due to the fact that Uttar Pradesh still employs outmoded production methods in agriculture and that consumption of chemicals and fertilizers is less in Uttar Pradesh than in other states.(25) However, the state is better off when judged on the basis of indices relating to per capita gross value of agricultural production, net value of output per acre and net value of output per agricultural worker. The per capita gross value of agricultural production in Uttar Pradesh in 1958-59 amounted to Rs 103.7 as against an average of Rs 102 for all the states in the same year.(26) Similarly, the net value of output per acre and net value of output per agricultural worker in 1960-61 was a little higher in Uttar Pradesh than the average for all the states. The net value of output per acre and net value of output per agricultural worker in 1960-61 in Uttar Pradesh were Rs 167.01 and Rs 479 respectively.(27) The corresponding average figures for the states were Rs 160.06 and Rs 477 respectively in the same year. Since the state contains a rich potential vital for agricultural development, even a little effort can give a push to agricultural development because "where primitive agriculture is the dominant occupation, there are frequently ways of achieving rapid increases in output at low cost through industrialization and improvements in agricultural methods."(28)

Central Investment

Concerted efforts have to be made not only to develop agriculture but constant attempts have to be made for rapid industrialization of the state. It is distressing to note that central investment in the industrialization of Uttar Pradesh has been smaller than in other states. Out of a total investment of Rs 1856.57 crores in centrally sponsored projects during the three Plans, the four states of Madhya Pradesh, Orissa, West Bengal and Bihar accounted for Rs 1,428.88 crores or nearly 77 per cent of the total.(29) Uttar Pradesh had no investment on central or state sponsored projects during the first Plan. There was no investment on central projects during second Plan also even though industrial investment by the Government of India considerably increased, but an investment of Rs 3.24 crores was made in state projects.(30) It was only in the third Plan that investment in centrally sponsored projects in Uttar Pradesh was Rs 71.44 crores. Besides, the state government incurred an expenditure of Rs 9.29 crores on industrial development.(31)

Thus, investment on industrial projects in Uttar Pradesh has been inadequate; the index of industrial production in 1962 for Uttar Pradesh was 136.0 as against 149.0 for all the states. Similarly, the value of mineral production per capita of population in 1963 was as low as Re 0.05 in this state, compared to an average of Rs 4.70 for all the states.(32) It has been pointed out that the shortage of power and "the absence of basic minerals, entrepreneurial class",(33) are the main factors inhibiting the industrial progress of this state; otherwise the state possesses good potentialities to develop agro-industrial units and cottage industries. It may be mentioned here that "in countries with a severe population problem governments tend, however, to support the small-scale and inefficient industry, for the reason that it is usually a big employer of labour, even if this policy is not in the best interest of development. .. .these stresses and strains of development greatly complicate the problem of a rational economic programme and its finance."(34)

Utilisation of Industrial Potential

It is encouraging that the central government has decided to start here six large and medium industrial projects during the fourth Plan. These projects include the setting up of a heavy pump and compressor project and a heavy structural project at Allahabad, a steel foundry at Naini (Allahabad), a foundry forge for Heavy Electricals at Hardwar and a tractor and a matching implements factory at Ramnagar (Varanasi). It is also reported that Bareilly has good potentialities for developing into an industrial complex. Let us hope that the state government will take effective steps, without delay, to utilise the industrial potentialities of the state.

Unfortunately nature, too, has been unkind to this relatively backward state. The recent unprecedented drought conditions have adversely affected 41 out of 54 districts, including nearly 54,000 villages and 60 million people. (35) The drought caused a damage of nearly Rs 110 crores to the kharif crop and spoiled the prospects of rabi sowing.(36) The central government allocated a sum of Rs 11 crores for schemes of pro-

duction in the drought affected areas.(37) The centre raised monthly allotment of foodgrains to Uttar Pradesh from 66,000 tons to 90,000 tons per month.(38) Steps were taken to start test relief works, provision of more fair price shops, cheaper credit facilities for irrigation purposes and increase in minimum wages in different regions of the state to provide relief to the drought stricken people.

Threat to Integrity

An economically backward state poses a great threat to the integrity of a federal structure. The centre must give greater attention to the development of Uttar Pradesh. The state must also make earnest efforts to increase savings because "as long as investment opportunities are numerous there are reasons to think it better that the necessary resources should be provided by voluntary savings, rather than by the compulsion of excess taxation, with its possibly harmful side effects. It is further thought desirable that a fair proportion of saving should be done by private individuals rather than business, since otherwise the power of growth is unduly concentrated in existing companies."(39) It is encouraging to note that Uttar Pradesh secured the top position in the National Savings Collection in 1966-67 despite severe drought conditions.(40) The state government must make efforts to harness the unutilised irrigation potential and unemployed manpower so that the agricultural situation of the state improves—a step vital for building a sound base for industrialization in the future. It is also hoped that the central government will change its step-motherly treatment and will give adequate assistance to Uttar Pradesh government.

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WINDOW ON THE WORLD

Flight from Money

E. B. BROOK

IF ONE thing is clear in the European—and far wider—world of finance and trade it is that in 1969 leaders in those fields and in government will need to keep their heads and avoid scrupulously the merest suspicion of panic.

It may look odd to make such a remark about presumably hard-headed bankers and businessmen or even about more flexible politicians. But the position about money supply and currencies is at present so unsatisfactory and, in part, so unstable that the calmest of people begin to act oddly.

There is widespread unrest among workers and students which shakes confidence inside Italy and France; far more to the point—there is an enduring lack of confidence in the value of money in Britain which results in grossly inflated buying of goods from cars to cigarettes which, not only in Britain, raises a constant shadow of inflation. Worst, perhaps, of all, these instabilities—the continued weakness of the pound, the threat of inflation to the dollar and the anxieties of other currencies—are resulting in rash economic academic theorizings on money and how to handle it, leading to an increase in personal and public alarm.

At the moment there is, on a small but threatening scale, a flight, not from this or that currency, but from money. It must be a world task in 1969 to stop that flight, to calm public nerves and to set international finance on a more reliable track.

The prospects are not altogether reassuring that these ends will be achieved. It is, in fact, probable that unrest in the world monetary system will last for years. This gloomy prospect is made the more probable by the obvious division in thought that exists on either side of the Atlantic. For while President-elect Nixon's economic advisers see salvation for international monetary values in putting currencies on floating instead of fixed exchange rates this idea finds little favour in Europe.

European Rejection

In Britain the Chancellor of the Exchequer appeared to speak somewhat in favour of the idea early in December when he stressed the need for further evolution of the monetary system, though he made no direct reference to a floating rate of exchange. The British government's attitude was made quite clear later in the month by the Prime Minister who, without actually turning down the idea of a world monetary conference, said it must be held only, if at all, "after really adequate preparation through existing channels." Even more definite in rejecting the idea of floating exchange rates was the German Central Bank president, Dr Karl Blessing, who declared that such an exchange rate would stimulate disintegration and could easily be used as a means of political pressure. The Governor of the Bank of Italy commented that a flexible exchange rate would lead to nationalism and protectionism.

Similarly, the OECD (Organization for Economic Co-operation and Development), comprising the non-communist world's 21 most highly developed nations, sees nothing wrong with the present system of international financial control or with the fixed exchange rates determined at Bretton Woods. The system was a reflection of national policies. The answer to present weaknesses, in OECD's opinion, is for governments to ease contradictory and self-defeating pressures by co-ordinating their economic programmes. Adjustments were essential and for no country could an adjustment be painless.

In an international condition where the threat of speculation in very large sums of money, so far from having eased, appears to be more probable than ever before and in greater intensity there is a good deal to be said for listening attentively to so dispassionate and so capable a body as the OECD. One of its soundest pieces of advice is to stand still and remain intact in a world of swirling changes. There would be great danger, in present conditions, in dismantling existing restraining policies.

Within a relatively short time two new powerful official factors will have been added to the situation. The new US President will state his administration's attitude at his inauguration on January 20 and the Common Market will outline its proposals for a new type of mechanism in monetary co-operation on February 15.

Advice to President-elect Nixon in favour of a floating exchange rate and of calling a summit conference with leaders of non-communist industrial nations to restore order in the international monetary system is increasing in volume. The Chairman of the House International Finance Sub-committee, Mr Reuss, has added his counsel on this score to that of a panel of academic economists who had already urged the virtues of oversetting Bretton Woods and adopting a floating exchange rate.

Confusion and Alarm

The volume of high-level advice to change or to conserve the existing system of monetary control has the unintentional effect of confusing and alarming people in Europe and the USA and of increasing the nervousness of the world's major money markets Those not actually nervous are at least pessimistic.

These circumstances also make it all the more necessary to consider carefully what all this advice and all these terms mean. It is also wise to examine how much of the proposals are really new and not remedies or palliatives that have been tried before. There has been a welter of plans and proposals since 1931 and public memory in such matters is short since the material is mostly unattractive.

The root of present troubles is the development of speculative "hot money" traffic that exists only in financially unhealthy situations. This movement of large sums of money from one country to another is more often protective than malicious profit seeking—though the latter element certainly exists especially where political factors come into consideration.

The fact that the central bankers have, so far, been unable to control this traffic and that they receive little or no help from the politicians means that here is, despite OECD, some inadequacy in present controls and international financing arrangements or that they are used insufficiently and too late A "floating" exchange rate would be an easy way out for the bankers since it would relieve them of all responsibility while currencies found, mostly by sinking, their levels and joined in a savagely competitive struggle for position.

A "floating" rate is not a new idea. It has been tried before and it is significant that after each period of fluctuating exchanges the large trading countries have returned with

relief to fixed exchange rates. This does not mean, of course, that history would necessarily repeat itself but it is a warning not to make wild changes.

The present disorders are by no means the product only of politics or of speculation. The pattern of world trading has changed considerably in the last 25 years and private purchasing has not yet fully adopted to this fact. Whereas before, manufacturing countries were largely selling one another different things they are now selling often the same things to one another; this fact has made a tremendous difference to the international flow of money. It is largely this fact that has necessitated, or at least produced, a whole series of support and equalization plans. They go back to 1931. Since the last war control organizations have grown in number and there have been at least half a dozen more plans.

The latest is the "swap" idea, the result of a memorandum produced by the foreign exchange managers of four central banks—of the USA, West Germany, Switzerland and Italy—which set up machinery to take the strain when it became too great for a national currency. A "swap" provides that funds flowing to a particular country are returned to those nations that lost them.

This plan was a turning point in international currency co-operation: its usefulness and significance is shown by the fact that in five years since it came into operation the volume of "swaps" has grown from $50 million to over $7,000 million.

If more use were made of this mechanism it could probably kill ill-intentioned currency speculation by making it too costly and render legitimate large-scale movements of international currency less necessary. Fortunately, an expansion of the "swap" agreements is at present under study.

While it remains to be seen what Mr Nixon will propose from Washington and the Common Market from Brussels it would seem wise to heed the calming voice of the OECD and to leave it to the professionally bank-controlled "swaps" to preserve currency values rather than to subject them to further uncertainties in the risky days ahead.

Singapore Seeks a Future in Industrialisation

DAVID CARPENTER

Five years ago the Government of Singapore established, with assistance from the International Labour Organisation (ILO) and the United Nations Development Programme (UNDP), the Light Industries Service Unit as a key feature of its industrial promotion drive. The phase of ILO and UNDP association with this successful project is now ending. In this article, a British journalist, David Carpenter, describes Singapore's efforts to promote employment and prosperity through industrialisation and the place of the Light Industries Service Unit in the government's plans.

IN THE troubled region of south-east Asia, Singapore is a comparative haven of political stability and progress. These factors, combined with a dynamism among its people, give rise to a good deal of optimism that Singapore—the newest and the smallest independent nation in south-east Asia—will thrive. But the going will not be easy.

Now in its third year of independence, this small island republic has reached what is probably the most critical point in its development. For now, in addition to the problems common to all developing countries, Singapore has to cope with the rapid withdrawal of British forces from its military and naval bases

Almost since the foundation of Singapore, the City of the Lion, by Sir Stamford Raffles nearly 150 years ago, the 224-square-mile island has been dependent economically on the British garrison and its extensive entrepot trade.

Unemployment Problem

As the trading post of south-east Asia the island is still thriving. But trade expansion cannot provide enough additional employment for its fast-growing population. The number of unemployed or underemployed now probably total between 50,000 and 100,000. These numbers will be considerably swelled by the British withdrawal. The military facilities provide employment for about 40,000 civilians, about three-quarters of them Singaporeans. Add to this a natural growth in the labour force of around 20,000 a year, and the magnitude of Singapore's problems is nearly complete.

But not quite. The storm clouds that threaten the whole of the region cannot help but cast a shadow over this small community with its contrasts of colonial elegance, oriental temples, and the fine modern architecture of low-rent apartment blocks and commercial buildings.

Up to now troubles elsewhere in south-east Asia have not, apart from Indonesia's confrontation, hindered development in Singapore. Indeed, there is no doubt that the Vietnam conflict and the 1967 Hong Kong riots have noticeably stimulated business development.

But just as easily, a disturbance nearer home could rapidly undo the island's phenomenal progress. The considerable unemployment created by the British withdrawal could upset the applecart with no, or very little, pressure from outside. Singapore's task then is a race against time. The economy must be developed fast enough to knock some noughts off the unemployment statistics.

No one recognises the danger more clearly than the forceful Premier of Singapore, Lee Kuan Yew. Mr Lee's People's Action Party has governed since Singapore became self-ruling in 1959.

The government's whole economic strategy has been directed towards industrialisation, which is keeping up a rate of growth inconceivable in developed countries. For Singapore, with limited resources of its own, this means attracting foreign investment.

Responsible for this is the Economic Development Board (EDB). Under Mr Hon Sui Sen, the chairman, the targets it has set for itself are formidable.

Even before the announcement that the British withdrawal would be accelerated, the EDB was aiming to attract US $300 million a year in new investment. To beat the unemployment problem jobs needed to be created at a rate of 10,000 to 12,000 a year. The EDB calculated that it takes US $7,200 new investment to provide each new job.

Since 1965, the business of attracting new investment, particularly the vital foreign investment, has not been so easy. When Singapore and the Federation of Malaysia decided to go their separate political ways, Singapore lost its easy access

to a market of some 10 million people. To combat the effects of this loss, the government brought in new fiscal incentives in 1967. These are reported to have attracted a lot of interest from potential foreign investors

As far as Singapore is concerned, its main attraction to the foreign industrialist are the opportunities for investment. Financial incentives are attractive and there is an abundant supply of well-educated labour.

The generous financial incentives include a five-year tax holiday to approved projects, an option to write off fixed assets in only one year, duty-free import of equipment, double allowance for overseas marketing expenses against tax, and tariff protection. The profits tax on approved pioneer enterprises has been reduced from 40 per cent to 4 per cent for a minimum of 15 years. Still further inducements offered towards the end of last year included reduced tax on royalty payments and on interest paid on manufacturing loans from overseas.

In addition, the Economic Development Board really goes out of its way to help prospective investors, even to finding suitable factory sites when necessary. In the seven years or so since the government has been actively promoting industrialisation, about 230 pioneer projects have started up. This represents a total investment of US $108 million, half of it coming from overseas.

Last year about 1,000 enquiries came from possible investors all over the world. To promote more, the EDB has set up offices in a series of overseas cities, and in other places, such as London, the Board is represented by the Singapore Trade Commissioner.

Labour-Intensive Industries

In its bid to attract new industry, the Singapore government is particularly keen to help establish a series of labour-intensive industries with a good export potential. Part of the drive to attract new industry has been the establishment of the Jurong Industrial Estate, in the south-west corner of the island.

Eventually this vast industrial area will cover 17,000 acres of reclaimed jungle and swamp land. In the first six years of the project about a fifth of the area has been prepared for industrial development. More than 80 factories have been set up, providing employment for 7,000. Two-thirds of the employees live in specially-built blocks of flats close by.

Much of the industrial growth in Singapore has taken place on the Jurong Estate. Final figures for 1967 are expected to show that industrial output grew even faster than the 18 per cent of 1966.

Part of future industrial development will depend on Britain's promise of substantial aid to cover the traces of its withdrawal from Singapore. Even though aid is a poor substitute for investment in solving the island's problems, it has already been useful in a number of fields.

A very good example of how successful aid can be is a project to set up a Light Industries Service Unit (LIS) backed by UNDP. The LIS is one of some 30 projects in the management development field currently being executed for UNDP by the International Labour Organisation in developing countries. The Singapore government originally planned the LIS as a conventional five-year technical assistance project with international experts to advise small factories (the great majority) on various aspects of industrial development. But it soon became clear that the approach could be made more sophisticated.

So, in addition to running courses and consultancy services, it was decided to set up a loans service to provide capital for development. In its first four years the LIS granted loans to 170 firms totalling US $1 million. The results have been spectacular. As a direct result of the loans, additional output valued at US $3.3 million has been chalked up, and no less than 800 new jobs created; a very good rate of return even in Singapore. Not one bad debt has been recorded, and commercial banks now carry 90 per cent of the risk. Previously there had been very little bank finance available to buy new equipment or to provide working capital.

When the ILO's contribution in setting up the LIS ended on August 31, 1968, all the services, including loans, were completely taken over by Singaporean counterparts to the international experts. This project has demonstrated clearly that it is not just financial aid Singapore needs—the government contributed more than half of the total US $1.8 million cost of the project, and firms have been willing to pay for consultancies and to attend courses. What Singapore needs most at its present stage of development is assistance in technical and managerial development

Flair for Enterprise

This should not be taken to suggest lack of entrepreneurial flair among the Singaporeans. Quite the opposite. One of the most enthusiastic users of the facilities offered by the LIS is a young girl running a tyre remoulding business. In two years she has taken over two other companies, and landed some large regular contracts. The firm's main plant gleams with the most up-to-date equipment available, and employs many of the managerial devices found in firms in the most industrialised countries

Not all the local industry can claim this sort of success. But most demonstrate a tremendous keenness to learn when the knowledge is available. One example is a textile firm which had no management accounting procedure and carried on quite happily thinking it was working at a profit. Close study showed in fact it was not. It set about putting things right straight away, with the aid of the Light Industries Service.

Sometimes this type of know-how assistance has unexpected results. An electrical engineering firm which had a quality problem beat it by sending six of its staff on a quality control course. After a time problems arose again—but only after five of the six trained staff had left to start up business in their own right.

It is just this sort of dynamism among its people and government that lends credibility to their hopes to be able to beat the awesome employment problem. Faced with a similar problem some other countries might be taking stop-gap measures to avert economic trouble. But Singapore is aggresively seeking solutions that will last. If it finds them it will not be by chance.

THIS IS AN ANNOUNCEMENT AND NOT A PROSPECTUS AND PERSONS INTERESTED ARE REQUESTED TO APPLY FOR A COPY

The Copy of the Prospectus has bee

Issue of 1,47,000 Equity Shares of Rs. 10/- each at par & 10,000 'A'

NUCHEM PLA

Registered Office : 54, Indus

EXISTING AND PROPOSED ACTIVITIES

The predecessor of this Company namely M/s. Rattanchand Harjasrai (Plastics) Pvt. Ltd. was incorporated on 8.8.1951 as a Pvt. Ltd. Company in the State of Punjab. M/s. Rattanchand Harjasrai (Plastics) Pvt Ltd were carrying on their manufacturing activities at Verka in the Distt. of Amritsar. In 1956, the above Company purchased land at Faridabad, New Industrial Township where started one of the divisions for the manufacture of Plastics Moulding Powders. Later in 1958 the above Company shifted its entire activities to Faridabad where it was functioning till 1967. The Registered Office of the above Company was also shifted to Faridabad N. I. T. In October, 1967, the above Company's name was changed into Nuchem Plastics Ltd. vide letter No. 775-P/5859 dt. 13.10.1967 of the Government of India, Company Law Board.

The Company was initially engaged in the Moulding of Plastic Buttons. In the year 1955 an agreement was entered into with British Industrial Plastics Limited, Birmingham, England for TECHNICAL COLLABORATION for manufacture of Urea Formaldehyde and Melamine Formaldehyde Moulding Powders and Resins. The agreement had come to an end in 1965. The Urea Formaldehyde Moulding Powders are used as raw materials for manufacture of Buttons, Radio Cabinets, Electrical accessories, Toilet seats, Crockery Tablewares etc. and the Urea Formaldehyde Resins have application as binding adhesive for Plywood, Hard Board and Chip Board industries. After successful production of U. F. Moulding powders, further expansion was undertaken in the year 1959-60 The plant for the manufacture of Urea Formaldehyde Resins was, also added, in the year 1965. The Company in the year 1963 started an Engineering Division equiping itself to produce Dies and Tools for producing Moulding Tools to meet demands of Tools for Plastics, Rubber and Electrical Industries, which had hitherto been imported.

The Engineering Division is self sufficient in Heat - Treatment and Hard Chromium Electroplating processes.

Thus the Company is able to meet the demand of all types of Urea Formaldehyde/Melamine Formaldehyde Moulding Powders, Resins and Moulding Tools for Plastics Industries in the Country.

Since Ist. October, 1966 the Moulding Division of the Company has been separated and has been sold to M/s. Rattanchand Harjasrai (Mouldings) Pvt. Ltd. which is being run by them independently.

The Company now proposes to undertake expansion in their Chemical Division and manufacture Formaldehyde one of the Basic Raw Materials required for production of U. F. Moulding Powders and Resins of thermosetting type.

LOCATION

The above plant is located at Faridabad in the State of Haryana at the factory site where the existing plants of the Company are already working. Faridabad is on the main Delhi - Mathura broad guage railway line and is connected by road.

RAW MATERIALS

The main raw materials for the production of Formaldehyde are Methanol and air. The other chemicals required to a minor extent are Caustic Soda, Catalyst etc. The Company is assured of the supply of the necessary raw material, Methanol from Fertilizer Corporation of India Ltd., Trombay Unit.

PURPOSE OF THE PRESENT ISSUE

The object of the present issue is to provide finances required for the setting up and operation of a plant for manufacture of Formaldehyde Chemical at Faridabad (Haryana).

PROGRESS OF THE PROJECT

The construction work has started. It is expected that the installation of the plant will be completed by the end of 1969 and the plant will be worked on trial production in December 1969. Commercial production will be taken up in early 1970.

PLANT AND MACHINERY

The Company has obtained an Import Licence for imp equipment for the Formaldehyde Project. Orders for the equip ment have been placed and L/c has been opened. The equipmen will arrive at site by July, 1969. Orders for the indigenou equipment are being placed and the Company is hopeful o starting trial production as mentioned earlier i.e. December, 19

M/s. R. L. Dalal & Co., Bombay, have been appointed a consulting engineers for execution of the project.

DIVIDEND DECLARED

30.9.64	30.9.65	30.9.66	30.9.67	30.9.68
7½%	Nil	Nil	6%	6% (Provision

FUTURE PROSPECTS AND DIVIDENDS

The Company as a Private Ltd., Company has been declarin dividends as and when desired by the Directors as it has bee ploughing back its profits mostly due to which it has bee accumulating large Reserves. In March, 1967, the Company issue Bonus shares in the ratio 1-2 by capitalising Rs. 4,98,800/- out o accumulated Reserves.

The Company will be able to save Rs. 300/- per ton by way of freig and packing charges only when the plant begins to produc Formaldehyde at the site. Their present consumption of Forma dehyde being 2400 tons per annum which is likely to increase t 5000 tons/annum or more by the time the plant comes int production. The Company will have Rs. 7 to 9 lacs of saving immediately.

The Directors feel confident to be able to declare high and regul dividends after the project is completed and company be to have its own Formaldehyde.

BOARD OF DIRECTORS

1. Sh. Hans Raj Jain s/o Late Sh. Jagan Nath Jain 3D/47, N.I.T. Faridabad.	Chairman Industrialist, Director of : Barar Beads Manufacturers (P) Lt Barar Lion Buttons (P) Ltd.
2. Sh. Harjas Rai Jain s/o Late Sh. Jagan Nath Jain "Roop Mahal" N. H. 2, Faridabad N. I. T.	Company Director Industrialist, Director of : Barar Beads Manufacturers (P) Ltd Barar Lion Buttons Pvt. Ltd
3. Sh. J.N. Iyer, 'Rajkaryasakta' s/o Sh. Jaya Rama Iyer, 321/C Deodhar Road, Matunga, Bombay-19	Company Director Director of : Geoffrey Manners & Co. Ltd. Bombay Universal Chemical & Indust Pvt. Ltd., Bombay. Electricals India Pvt. Ltd. Bombay. Srinivas Brothers Pvt. Ltd. Bombay.
4. Sh. Bhupendra Nath Jain s/o Sh. Harjas Rai Jain, "Roop Mahal" N. H. 2, Faridabad N. I. T	Managing Director Industrialist. Director of : Barar Lion Buttons Pvt. Ltd. Barar Beads Manufacturers (P) Ltd
5. Sh. Amar Chandra Jain s/o Sh. Harjas Rai Jain, E-15/16, Kalindi Colony, Ring Road, New Delhi-14	Company Director Business Executive
6. Sh. S.L. Khanna, B.A.LL.B., s/o Sh. Sohna Mal, 1291, Sector 18-C, Chandigarh	Company Director Retired Govt. Official

"THE SUBSCRIPTION LIST WILL OPEN AT THE COMMENCEMENT OF BANKING HOURS

27th JANUARY, 1969 OR EARLIER AT THE DISCRETION OF THE DIRECTORS

PROSPECTUS FOR FULL DETAILS FROM THE COMPANY'S REGISTERED OFFICE. BANKERS. BROKERS AND UNDERWRITERS NAMED BELOW.

with the Registrar of the Companies Delhi on 31-12-68.

9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each at Par.

STICS LIMITED

l Area, FARIDABAD N.I.T. (Haryana)

SOLICITORS

M/s. Bagrat & Co.,
Plaza Building, Connaught Place, New Delhi.

AUDITORS

D. S. Talwar & Company.
Chartered Accountants,
Katra Ahluwalia, Amritsar & Jhandewalan Extension,New Delhi.

SHARE CAPITAL :

Authorised :			
750,000	Equity Shares of Rs. 10/- each	... Rs.	75,00,000
15,000	'A' 9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each (Free of company tax but subject to deduction of shareholders' tax at source. redeemable after 12 years but not later than 15 years from the date of allotment at the option of the Company.)	... Rs.	15,00,000
10,000	Preference Shares of Rs. 100/- each	... Rs.	10,00,000
	Total	... Rs.	1,00,00,000
Issued, Subscribed and Full Paid Up :			
1,49,900	Equity shares of Rs. 10/- each fully paid up issued to Directors, Friends and Relatives.	... Rs.	14,99,000
PRESENT ISSUE			
150,000	Equity shares of Rs. 10/- each at par	... Rs.	15,00,000
10,000	'A' 9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each at par.	... Rs.	10,00,000
	Total	... Rs.	25,00,000
Out of the Present Issue			
	Directors, Employees of the Company and their friends and associates have subscribed for and allotted 3,000. Equity Shares of Rs. 10/- each which have been fully paid up.	... Rs.	30,000
NOW OFFERED to the Public for Subscription for cash at par in terms of this Prospectus.			
(a) 1,47,000	Equity shares of Rs. 10/- each	... Rs.	14,70,000
(b) 10,000	'A' 9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each	... Rs.	10,00,000
	Total	... Rs.	24,70,000

TERMS OF PAYMENT

	Equity Shares	Preference Shares
(i) On application	Rs. 2.50	Rs. 25.00
(ii) On allotment	Rs. 2.50	Rs. 25.00

(iii) Balance :- In one or more calls as and when the directors may determine provided that there is an interval of at least 3 months between any two calls. The 1st call will not be made before 3 months after the allotment of shares.

(a) The calls on the Equity and Preference Shares will be made simultaneously and proportionately.

(b) Failure to pay any amount due on shares on allotment or on call when due, will render the shares and earlier payments made thereon liable to forfeiture.

APPLICATION FOR THESE SHARES MUST BE FOR A MINIMUM OF 50 SHARES FOR EQUITY AND 5 SHARES FOR PREFERENCE OR MULTIPLES THEREOF.

UNDERWRITERS :

40,000 Equity Shares and
10,000 9.5% Cumulative Redeemable Preference Shares have been underwritten as follows :—

Name & Address of the Underwriter.	Equity Rs.	Preference Rs.
1. **Haryana State Industrial Development Corporation,** Chandigarh.	—	6,00,000
2. **Life Insurance Corporation of India,** Yogakshema Madame Cama Road, Bombay-1	3,00,000	2,00,000
3. **The Industrial Credit & Investment Corporation of India Ltd.,** 163-Backbay Reclamation, Bombay-1	1,00,000	50,000
4. **Unit Trust of India,** 45, Veer Nariman Road, Bombay-1	—	1,50,000
Total :	4,00,000	10,00,000

In respect of the balance 1,07,000. Equity Shares offered to the public in terms of this prospectus the Directors have guaranteed the subscription by themselves, their relatives and friends.

BANKERS TO THE COMPANY & BANKERS TO THE ISSUE

1. National & Grindlays Bank Ltd., Connaught Circus, New Delhi-1
2. The New Bank of India Ltd , Janpath, New Delhi-1
3. The Canara Bank Ltd., Chandni Chowk, Delhi-6
4. Union Bank of India Ltd , Connaught Circus, New Delhi-1

BROKERS TO THE ISSUE

MANAGING BROKERS

M/s. Harbans Singh Mehta & Company
33, Regal Building, Parliament Street, New Delhi.

BROKERS

DELHI

M/s Harbans Singh Mehta & Co.
33, Regal Building, Parliament Street, New Delhi.

M/s. K. B. Malik & Co.,
Atma Ram House, Opp. Odeon Cinema, Post Box No. 311, New Delhi-1.

M/s. D. B Malhotra & Co.
13, Stock Exchange Building, Asaf Ali Road, New Delhi-1

M/s J. S Sahny & Company,
25, Stock Exchange Building, Asaf Ali Road, New Delhi.

M/s. Raja Ram Bhasin & Co.
8/4, Desh Bandhu Gupta Road, New Delhi-1

CALCUTTA

M/s. Place Siddon & Gough Pvt. Ltd.,
6, Lyons Range, Calcutta-1.

M/s. Stewart & Co.,
14, India Exchange Place, Calcutta.

AHMEDABAD

M/s. Chunibhai Chaman Lal,
Fatebhai, Haveli Ratanpole, Ahmedabad.

BOMBAY

M/s. Champak Lal Devi Das
Agakhan Building, Dalal Street, Fort, Bombay-1

M/s Lewis & Jones,
Bank of Baroda Building, Apollo Street, Fort, Bombay-1

MADRAS

M/s. Paterson & Co.
Post Box No. 48, Vanguard House, 3rd Floor, 11/12, Second Line, Beach, Madras-1

M/s. Chitra & Co.
322/323, Light Chettey Street, Madras-1

BANGALORE

M/s. M. Nanjappaiah Jahgirdar,
205, Cavalry Road, Bangalore.

HYDERABAD

P. B. Afzul Purkar,
Sultan Bazar, Hyderabad (A.P.)

ON 16th JANUARY, 1969 AND WILL CLOSE AT THE CLOSE OF BANKING HOURS ON
BUT NOT BEFORE THE CLOSE OF BANKING HOURS ON 18th JANUARY, 1969."

The moving finger writes

THE US President-elect, Mr Richard Nixon, celebrated his daughter's marriage some days ago. He did not wait till he had moved into the White House, which he would be doing shortly. This is rather strange. We in this country like to arrange these things differently. Is it not a well-known fact that many of our ancients in public office had lingered or are lingering at their posts in order that, apart from everything else, their grandsons or their grand nieces could be married off in style?

* *

It seems to me that the Supreme Court judgment in the Chenna Reddy appeal is altogether perverse. It is clearly bad in law and bankrupt of common sense. How an appeal to the Muslim section of the electorate to exercise its vote in favour of one Hindu candidate rather than another Hindu candidate can be held to be an unfair election practice involving the exploitation of communal passions or sentiments passes my comprehension. What the law in question intends to provide against, surely, is that an appeal should not be made by or on behalf of a candidate to members of his own community to vote for him on the ground that he belongs to their community. In this particular instance, the charge is that an appeal was made to the Muslim voters not to vote for Dr Chenna Reddy's opponent (who is a Hindu even as Dr Reddy is a Hindu), but to vote for Dr Reddy on the plea that the former was a Hindu communalist in whose hands the interests of Muslims would not be safe. I am not concerned here with the question whether the accusation made against Dr Reddy's opponent has substance or not. All that I am concerned to point out is that this cannot be construed as an appeal made on communal grounds as is contemplated in the relevant law.

Indeed, I would go so far as to say that it should not only not be regarded as an unfair election practice, but it should also be accepted as legitimate election propaganda for a candidate, his sponsors or workers to seek to enlist the support of any particular community by claiming that he would be a more satisfactory custodian or advocate of the legitimate interests of that community than his opponent is likely to be. So long as religion and caste are facts, they have got to be accommodated in a reasonable way within the norms of public life or political activity.

I should also point out that the Supreme Court judgment has a quality which is not of the world in which we, including our judges, live. It is a fact of our political life that many political parties have organised themselves and are functioning in terms of sectional interests as defined by religion, caste or community. It is also a fact that the selection of candidates by political parties is clearly being guided by, among other considerations, the extent to which a prospect may appeal to this or that considerable communal or caste element in a constituency. Given this context, the interpretation which the Supreme Court judgment has given to what constitutes an unfair election practice of appealing to communal sentiments or passions compels me to ask whether it has not been said somewhere that "nothing is law that is not reason".

* *

The attitudes of aggression and violence which the Marxist communists in Tamil Nadu have brought to bear on their activities among farm labour were certainly responsible for the chain of events which culminated in the holocaust of December 25 in which 42 persons, mostly women and children, were burnt to death in Kilavenmani village in Thanjavur district, when a hut in which they had taken refuge was set fire to. While there is naturally great public resentment at the outrage and the state government may be expected to be held to account not only by the people of the state but by the people of the country as a whole for bringing the culprits to justice and restoring law and order in the troubled area, the Marxist faction in the state is evidently determined to exploit the situation for extending and perpetuating a state of lawlessness and violence in the affected region and beyond. Already, under the pretext of reprisals for the Kilavenmani massacre, in which the families of Marxist-led farm labourers were the victims, the communist faction seems to have initiated a campaign of waylaying, assaulting and otherwise intimidating non-communist farm labourers in the southern districts of the state. At this rate, there is bound to be a widespread revulsion of public opinion in all parts of the state against the communists as a political party. This is bound to destroy what meagre prospects there ever were of the communist participant in the triangular election contest at Nagarcoil securing any appreciable support among the voters.

The Congress party in Tamil Nadu is naturally trying to turn the implications of the communist-engineered unrest in the state's "rice bowl" to its electoral advantage. Mr Kamaraj has been quick to address to the DMK leadership the rhetorical question how at all that party could still be politically allied in any manner with the communists in the state. There is, moreover, little doubt that the DMK has suffered in prestige and political authority as a result of the happenings in Thanjavur and this must detract from the value of the support which this party has extended to the Swatantra candidate who is expected to offer the main opposition to Mr Kamaraj in the Nagarcoil contest. The mystique of the DMK seems to be wearing out fast with the people having started to lose confidence in its capacity to govern.

There is, of course, much more in all this than merely the matter of Mr Kamaraj or even the Congress winning or losing at Nagarcoil. The critical issue is whether, at a time when communist factions across the country seem to be in the process of developing a grand strategy for disrupting public security and upsetting law and order in the nation, there is enough assurance that the various state governments will be both willing and able to act effectively in containing the danger.

So far as the DMK ministry is concerned, its record has not been reassuring. I should not be arguing, of course, that a judgment could be passed on the worth or purpose of a state government merely in the light of some stray episodes of violence in its area. The Kilavenmani happening, however, is a different story altogether. It can reasonably be inferred that tension should have been building up in the village and its neighbourhood for some time before the actual tragedy. The DMK administration's obvious unpreparedness, even if most charitably interpreted, can only mean that it just does not have the political maturity, nor has it acquired the administrative experience needed for anticipating and, if possible, avoiding such organised threats to public security or law and order. With the Chief Minister having to be careful about his physical condition, while his chief lieutenants evidently are incapable of acting independently of him except in intriguing against one another, the DMK administration must now be said to be on its trial, with time running out on it.

V.B.

Trade Winds

COLLABORATIONS AND EXPORTS

ADDRESSING THE twentieth meeting of the Central Advisory Council of Industries recently in New Delhi, the union Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, announced important changes in government policy on foreign collaboration. The government would not permit stipulation of any export restriction by foreign parties entering into collaboration with Indians, he added. He made it clear that when the existing collaboration agreements which limited exports came up for renewal, the restrictions should be totally eliminated or substantially removed. In the event of the foreign collaborator not agreeing to this course of action, renewal of agreements would not be permitted. The government proposed to stringently scrutinize future agreements to eliminate export restrictions, the approach being that the agreement should allow free export to all countries except perhaps the country of the foreign collaborator or the countries where the foreign collaborator had joint ventures in the same field of production. In low-priority or non-essential fields of production where foreign collaboration was not generally allowed, the minister indicated that a relaxation might be made provided the foreign collaborator agreed to underwrite a major share of the production for exports. Mr Ahmed said the existing policy of not allowing foreign collaboration in trading activities might be relaxed where such collaboration was exclusively aimed at augmenting export sales. The minister also announced a series of measures to promote exports of non-traditional industrial products.

INDO-IRAN TRADE PANEL

India and Iran will set up a joint machinery at ministers' level to work out measures for economic, commercial and technical co-operation. Also, as a first concrete step in collaboration, the two countries will sign an agreement on technical co operation which will form the basis for individual projects. The decision to set up the joint machinery was taken at the instance of the Shah of Iran, who reportedly expressed a wish that some concrete steps should be taken before he concluded his 12-day tour of this country. Mrs Gandhi warmly reciprocated the gesture.

ORDINANCE ON CUSTOMS ACT

A major step designed to curb smuggling was taken on January 3 when President Zakir Husain promulgated an ordinance to amend the Customs Act. A bill to amend the Customs Act towards this end could not be disposed of during the winter session of Parliament. The ordinance embodies most of the provisions of the bill. It contains regulatory provisions for curbing smuggling of silver out of the country. While the regulatory provisions pertaining to silver will apply to a "specified area" extending to 50 kilometres along the western coast of India, certain other provisions in respect of "notified" foreign goods under 11 heads will operate throughout the country.

Broadly, the provisions of the ordinance are that every person possessing silver bullion and coins exceeding Rs 1,500 in price shall have to intimate to the gazetted officer of Customs concerned within seven days particulars of the place where such silver is kept. He will also have to maintain accounts in the prescribed manner. After that period silver exceeding this value shall not be kept in any place which has not already been intimated. Transport of silver from, into or within the "specified area", will have to be under cover of serially numbered transport vouchers used by the seller or the owner, but there is an exemption for transport of silver of a price up to Rs 1,000 within a city, town or village. In certain specified circumstances, the transport voucher must be countersigned by an officer of Customs. The provisions also require that except for petty sales up to an aggregate price of Rs 2,500 in a day, sales may be made either on receipt of payment by cheque drawn by the purchaser or after observing certain prescribed precautions to ensure that the purchaser is not a fictitious person. Contravention of any of these measures will make the silver liable to confiscation under the Customs Act and the persons concerned to the penal provisions of that Act.

On the import side, the regulatory measures will operate throughout the country in respect of the following notified goods of foreign origin: Watches, synthetic yarn and metallised yarn; fabrics, saris and knitted wear, made wholly or mainly of synthetic yarn; alcoholic liquors; cigarettes, cigars, manufactured tobacco, cigarette lighters and flints; fountain pens, ball point pens and propelling pencils; perfumes, cosmetics, adjustable safety razors and blades, playing cards, battery-operated toys transistor radios, transistors, stereos, tape recorders and tapes and cartridges; electric appliances, shavers, hair dryers, mixers and liquidisers, automatic toasters and irons, photographic cameras, flashguns and films. Broadly, the measures require that any person possessing "notified" goods, except for personal use, shall, within seven days, intimate the place of storage and give a statement to the gazetted officers of Customs concerned indicating details identifying particulars as specified in the rules in respect of "notified" goods. Persons possessing "notified" goods, except for personal use, will also have to maintain accounts in the prescribed form and manner.

INVESTING IN ETHIOPIA

India would be extremely happy to help Ethiopia in the economic field, Mr G. D. Birla stated in Addis Ababa on December 31. Mr Birla, addressed a crowded gathering comprising Ethiopian and foreign industrialists, businessmen and bankers, at the Addis Ababa Chamber of Commerce. He indicated that his educational institutions in India would train young Ethiopions in the art of trade.

He suggested that power and communications should be given top priority in the development programmes of Ethiopia and other African countries. From what he had seen during his short sojourn in Ethiopia, he firmly believed that it had a bright future. Mr Birla said he had advised members of the Indian business community in Addis Ababa that if they wanted to do business in Ethiopia, their objective must be to create prosperity for the people of Ethiopia, to help them in learning the secrets of trade. He disclosed that the Birla group was planning to expand its business operations in Ethiopia, but did not say in what specific spheres. He mentioned the possibility of the group ultimately starting a factory for the production of paper from bamboo plup or from some other wood in order to make Ethiopia self-sufficient in this product. Ethiopia has large bamboo forests all along the western region. The Ethiopian Minister of Commerce and Industry, Mr Abebe Retta, who presided, expressed admiration for India's industrial development.

GUJARAT INDUSTRIAL DEV. CORPN.

In the six years of its working between 1961-62 to 1966-67, Gujarat Industrial Development Corporation had constructed 103 factories in four places of Gujarat at a total cost of Rs 80

lakhs. The corporation raised the tempo of development during the year 1967-68 substantially and had undertaken construction of 331 factories in 13 places in Gujarat at a total cost of Rs 3 crores. Out of this amount, nearly Rs 75 lakhs were contributed in cash by the industrialists and the balance was provided as long-term loans from the GIDC to the industrialists. In addition, the corporation, during the last six months, had already planned and had undertaken construction of 259 more factories in 22 more areas, making a total coverage of 35 places in different districts. More than half of these factories were being constructed in rural and semi-rural areas of Gujarat. The chairman of the corporation, Mr Manubhai Shah, hoped that these 590 new factories ranging in investment from Rs 1 lakh to Rs 5 crores would be completed by June 30, 1969, with a total investment from the GIDC of about Rs 6 crores and the balance from the industrialists. The corporation was also undertaking a programme of establishing rural workshops and factories for self-employed technicians and engineers as per the new scheme of social control on banks.

MORE EXPORTS TO U.S.S.R.

A high-powered Soviet delegation will arrive at New Delhi in February to finalise the long-term trade agreement between the two countries. This was revealed recently by Mr P. C. Alexander, leader of the Indian delegation, which returned to the capital from Moscow after signing the 1969 trade protocol between India and the Soviet Union. Explaining the details of the annual trade plan concluded in Moscow, Mr Alexander stated that exports to the Soviet Union during 1969 would be pegged at Rs 160 crores, some 20 per cent more than last year, while imports to India had been fixed at Rs 84 crores. The trade plan had envisaged imports from the USSR at Rs 107 crores during 1968, but it is feared that it may now reach only Rs 70 crores. During the year, for example, India did not buy earth moving machinery equipment, mining equipment etc. from the USSR because substantial indigenous capacity had been developed in the country.

EXHIBITION OF OFFICE MACHINES

Mr Mohd. Shafi Qureshi, Deputy Minister for Commerce, inaugurated an exhibition organised by Blue Star in New Delhi recently of business machines from the German Democratic Republic. Mrs C. Bauer, Director, Exhibition and Chief Delegate from Bueromachinen Export, Berlin, was also present at the occasion. A wide range of office machines is produced in the German Democratic Republic. These machines are noted for their high standard of quality and performance, thus, making them important rationalization aids in science, industry and commerce. The office machine industry of the GDR is backed up by a long tradition and employs some 40,000 people, many of whom have a life-long experience in this particular line of manufacture.

Indian Economic Association: Inaugurating a four-day golden jubilee session of the Indian Economic Association, Mr Morarji Desai stated that the problems that required urgent attention in the next phase of development were those of enlarging internal resources for development, accelerating our progress toward self-reliance and, in general, creating the necessary managerial and organisational capability in the country.

Bonn Credit for Ships: The West German government and its leading shipyards have offered credit worth Rs 60 crores for the expansion of India's merchant fleet. Bonn has offered to extend credit worth DM 300 million to finance

the construction of new vessels for Indian shipyards. These credits comprise one-third in capital aid, repayable in 25 years with a grace period of seven years and carrying three per cent interest and two-thirds in "hermes" credits, repayable in ten years and carrying interest at ten per cent.

Joint-Ventures in Malaysia: Malaysia has asked Indian industrialists to speed up their proposals for setting up joint ventures, and "join quickly in the multi-sided development" of that country. An Indian industrial delegation, which recently toured Malaysia, was clearly told that regardless of the historical ties between the two countries, "Malaysian industry would not wait for Indian technology and expertise indefinitely". During its five-day tour of Malaysia in November, the delegation also found that industrial opportunities in that country had aroused considerable interest in capital-exporting countries and foreign investment was fairly free and fast.

Cardboard Know-how For Malaysia: The Regional Research Laboratory, Jorhat, will help instal a cardboard factory in Malaysia under an agreement entered into recently with a Malaysian firm. The laboratory has sold to the firm technical know-how it has developed to manufacture cardboards from sawdust, paddy husk and groundnut husk, which normally go waste. The factory will be installed by Indians.

Russian Tractor Distribution: The Minister for State for Food and Agriculture, Mr A. P. Shinde, disclosed recently that the Soviet Union had agreed to the distribution of Russian tractors through the state-owned agro-industrial corporations. Earlier, Russia was insistent that the tractors should be distributed through a private Indian firm of New Delhi which had been distributing Russian tractors over the past few years.

Indo-Thai Trade Pact: India and Thailand recently signed their first trade agreement. Commerce Minister, Dinesh Singh, stated that the agreement was for one year with a provision for automatic renewal. At present we have a deficit balance of trade with Thailand.

Indo-Thai Venture: A collaboration agreement between Indian promoters and a Thai corporation to set up a re-rolling steel mill in Thailand with a production capacity of 50,000 tons of iron rods and bars, has been sanctioned by the Government of India. An Indian re-rolling plant will be the contribution of the Indian collaborators. It will be shipped by the end of December 1969.

Asian Payments Union: An Asian plan of trade expansion, supported by a payments union, may be launched within a year to promote economic co-operation among the Asian countries. Trade preferences, commodity agreements and a regional shipping pool may be some of the distinct features of the plan. Mr Dinesh Singh, who reported to Parliament on December 17 on the formation of a council of ministers for Asian economic co-operation, told newsmen that since the council would comprise ministers of various member governments, it would be able to mobilise the political will which is necessary to push ahead an action programme for economic co-operation.

Canadian Wheat Agreement: Canada has agreed to provide this country with about 15 million bushels of wheat, valued at 30 million Canadian dollars (Rs 19.05 crores) Mr Mitchel Sharp, Canadian Secretary of State for External Affairs, announced in Ottawa on December 16.

Company Affairs

DELHI CLOTH MILLS

DR BHARAT Ram, Chairman, Delhi Cloth and General Mills Co. Ltd., Delhi, stated at the annual general meeting held recently that the textile industry in the country was experiencing serious trouble so that many units faced threats of closure. He added that to maintain standards in this industry, the government had to help in the process of rehabilitation in a massive way. Even in a country like Japan, he added, where the textile industry was comparatively modern, the government formed an organisation called the Textile Industry Rationalisation Agency aimed at advancing $500 million for the reorganisation of the textile industry. The programme involved reolacing 2.8 million obsolete spindles, out of a total of 12.5 million spindles, with 900,000 automated spindles. Similarly, 3,000 obsolete looms were to be replaced with 175,000 new ones. In that country, looms of 13 years and over were considered obsolete to enable the industry to maintain high standards of productivity. Consequently, Dr Bharat Ram stressed the fact that the government in this country should also assess the problem correctly and offer assistance in an adequate manner.

The chairman pointed out that rayon tyre cord and PVC units at Kota were facing competition because production was more than demand which led to a decline in prices. He added that sugar and vanaspati factories of the company recorded good performance. He stated that the fertilizer unit at Kota, in which the company had invested a large amount, would commence production shortly. The unit, he added, was being put up in record time. He was hopeful that this unit would raise the profitability of the company. Taking into account the immediate financial needs, he added, the directors had considered it proper to restrict the cash dividend on ordinary shares to six per cent and to issue ordinary bonus shares in the proportion of one share for every Rs 250 of paid-up ordinary shares by capitalising a part of the general reserve.

PARRYS CONFECTIONERY

Mr H. V. R. Iengar, Chairman, Parrys Confectionery Ltd. in his statement to the shareholders issued on the occasion of the annual general meeting of the company, revealed that sales during the year ended September 30, 1968 recorded an increase of 15 per cent over the previous year to touch a figure of Rs 4.62 crores. Its profit, however, dropped to Rs 20.61 lakhs, as against Rs 27.29 lakhs a year back, before providing for taxation. The directors, he added, had recommended a final dividend of 11.50 per cent which made the total distribution on ordinary share capital at the rate of 18 per cent, the same as during the previous year.

Mr Iengar pointed out that an excise levy on confectionery with effect from March 1, 1968 at 80 paise per kilogram had adversely affected the industry because consumers' resistence had developed on account of increase in the price of final products. He added that the industry's repeated requests to the government for relief had been without any concrete results. Production and sales of this unit had suffered appreciably, he added, while units in the unorganised sector with their products of doubtful quality exempted from excise levies were capturing the market. He also pointed out that lower offtake in the organised sector would naturally cause a decline in the revenue to the government.

The chairman stated that in spite of considerable modernisation brought about in the factory, possibilities were being explored to further improve machinery with the introduction of latest techniques. In the context of exports, he pointed out that in the absence of incentive, the company could confine its efforts to the extent absolutely necessary.

ASHOK LEYLAND

Mr A. Ramaswami Mudaliar, Chairman, Ashok Leyland Limited, stated at the annual general meeting held recently that the company proposed to pursue the expansion programmes in spite of certain difficulties. The company raised finance for this purpose by means of a sterling loan of £1 million from the Industrial Credit and Investment Corporation of India Ltd. and a debenture loan of Rs 2 crores, which was fully taken up and allotted. He stated that the finance thus raised would be utilised for the erection of building and plant to increase the indigenous manufacturing content of the Beaver and Hippo types.

The chairman indicated that the company had followed consistently a policy of progressive advancement in techniques and in that context several engineers were engaged in diversifying production. He added that the new Jumbo Chassis received quite encouraging response from the market. The double-deck chassis with nearly 50 per cent indigenous content, and dumpers of heavy tonnage were being well received in the market

Mr Mudaliar indicated that the company explored overseas markets for the export of Comet Chassis and succeeded in obtaining orders from Ceylon. He further added that Messrs Leyland Motors Ltd, the collaborators, felt confident that during the current year considerable progress would be made in the export business.

In spite of the fact that the company recorded a slightly lower turnover than the previous year, the chairman revealed that a dividend of eight per cent subject to tax was maintained

AJUDHIA TEXTILE MILLS

The Ajudhia Textile Mills Ltd, enters the capital market on January 10, 1969 with an issue of 5,000 cumulative redeemable preference shares (10 per cent) of Rs 100 each. The present issue of preference shares is redeemable at par on expiry of 12 years from the date of issue. The entire issue has been underwritten and the subscription list will close on January 15, 1969 or earlier at the discretion of the directors but not before January 13, 1969. In 1960, the company undertook the expansion programme so that the spindlage increased

from 12 000 to 26,000 as on March 31, 1968. The expansion in the weaving department has been taken up in putting up the automatic looms and modern printing and processing plant involving a capital expenditure of Rs 30 lakhs. The company has negotiated for the purchase of machinery. A part of the finance has to be raised by the present issue. The company has an authorised capital of Rs 50 lakhs made up of 700,000 equity shares of Rs 5 each and 15,000 cumulative redeemable preference shares of Rs 100 each. Issued capital is made up of 315,000 equity shares and 9,865 cumulative redeemable preference shares (10 per cent).

TELEFUNKEN

Telefunken India Ltd will enter the capital market on January 14 with an issue of 262,500 equity shares of Rs 10 each. The issue will close on January 23, or earlier, at the discretion of the directors but not before January 16, 1969. The authorised capital of the company is Rs 1.50 crores and the issued, subscribed and paid-up capital is Rs 48.75 lakhs. The present issue has been underwritten. The company, established in collaboration with Telefunken A.G., West Germany, proposes to manufacture radio sets and electronic components for which it has obtained industrial licences from the union government. The company has taken steps towards the expansion of the manufacture of electronic components. The factory is located at Ballabgarh, nearly 24 miles from Delhi.

NUCHEM PLASTICS

Nuchem Plastics Ltd proposes to enter the capital market on January 16, 1969 to raise Rs 24.70 lakhs to finance expansion of its chemical division and to manufacture formaldehyde, a basic raw material for the production of urea formaldehyde moulding powders and resins. The issue will close on January 27 or earlier but not before January 18, 1969. The company has an authorised capital of Rs 1 crore, comprising Rs 75 lakhs in equity shares of Rs 10 each, Rs 15 lakhs in 'A' 9.5 per cent redeemable cumulative preference shares of Rs 100 each and Rs 10 lakhs in preference shares of Rs 100 each. Of the present issue of Rs 25 lakhs, the directors, their friends and employees have subscribed for 3,000 equity shares for Rs 30,000. The balance of 147,000 equity shares and 10,000 'A' 9.5 per cent redeemable cumulative preference shares are to be offered for public subscription. Of this, the entire preference issue of Rs 10 lakhs and equity shares for Rs 4 lakhs have been underwritten by the Life Insurance Corporation, the Industrial Credit and Investment Corporation, Unit Trust of India and Haryana State Industrial Development Corporation. The balance of 107,000 equity shares have been guaranteed subscription by the directors, their friends and relatives.

The company has been manufacturing urea formaldehyde moulding powders for over a decade. These moulding powders are used as raw materials for the manufacture of a variety of plastic articles like buttons, radio cabinets, electric accessories, crockery, tablewares, etc. It started an engineering division in 1963 to produce dies and tools to meet growing demand for tools for plastics, rubber and electrical industries. A plant was put in 1963 for the manufacture of urea formaldehyde resins, which are used as binding adhesive for plywood, hardboard and chipboard industries. Work on the new plant for the manufacture of formaldehyde has already been started near the present factory site at Faridabad.

INTERNATIONAL COMPUTERS

International Computes (India) Ltd has plans of expansion of its manufacturing activity in India. Mr William Hall, who was till recently in charge of the company's regional office at Midlands in the UK, of International Computers and Tabulators Ltd, has now taken over as the marketing director ICL (India). He stated recently that ICL has already sold three computer machines in India and expects to sell in all seven machines before May, 1969, under the brand name of I.C. 1901 A. The company expects to sell in all about 15 computers during 1969. He added that the management expected to export their machines overseas, mainly to the UK in times to come. The company has plans to manufacture as many as 56 machines at the Bangalore factory during the next four years.

VOLTAS

The directors of Voltas Limited have recommended a dividend of 15 per cent less tax for the year ended August 31, 1968, same as last year. The company's sales have risen by 14.5 per cent over the year from Rs 54 crores to Rs 61.83 crores, but the profitability has not been commensurate with the sales. The profit has gone down to Rs 234.47 lakhs from Rs 255.24 lakhs in the previous year. After providing Rs 51.90 lakhs for depreciation, Rs 102 lakhs for taxation and Rs 3.50 lakhs for development rebate reserve, the net profit is again lower at Rs 77.07 lakhs compared with Rs 82.22 lakhs last year. The whole of it has been transferred to general reserve. The proposed dividend will claim Rs 64.94 lakhs and is to be paid out of the general reserve. The sales exclude consignment sales at Rs 5.70 crores. The company has set up a new division for the promotion of exports known as international operations division. Apart from promotion of exports the division will try to export its know-now and joint collaborations for manufacture abroad. The company has on hand orders for export valued at Rs 20 lakhs to begin with.

HINDUSTAN-PILKINGTON

The directors of the Hindustan-Pilkington Glass Works Limited have announced an interim dividend of five per cent on the ordinary shares for the year ended December 31, 1968. This is payable to those shareholders registered as on January 23. Since 1967 when all arrears of preference dividend up to and inclusive of that year were paid off, the progress of the company is reported to have been maintained despite the difficulties of the flat glass industry. The working results for the current year have been quite satisfactory.


5 rounds a week on my GULF course!
every thursday at 1730 hours
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every monday at 0100 hours
BOMBAY — BAHRAIN
every tuesday at 0700 hours
BOMBAY — NEW DELHI — KUWAIT
every thursday at 0100 hours
BOMBAY — KUWAIT
every friday at 2230 hours
BOMBAY — NEW DELHI — KUWAIT
AIR-INDIA
IN ASSOCIATION WITH B.O.A.C. AND QANTAS

BOOKS BRIEFLY

Promise or Peril ?

The New Industrial State: J. K. Galbraith; Oxford & IBH Publishing Company; Pp. 427; Price Rs 28.

Reviewed by S. S. M. DESAI

This is a new book by the author of 'The Great Crash' and 'The Affluent Society.' This introduction should suffice to make the reader enthusiastic about the book.

The capitalistic system has undergone fundamental changes in its structure in recent years. According to Prof. Galbraith the most striking development of our times is that a small number of industrial giant corporations "technically dynamic, massively capitalized and highly organized" account for the major portion of all industrial activities. This industrial system is the dominant feature of the New Industrial State.

Modern industry uses highly specialized technology which means systematic application of scientific or other organized knowledge to practical tasks. According to the author important consequences follow from the use of this type of technology. An increasing span of time separates the beginning from the completion of any work. Sophisticated technology also means an increase in capital that is committed to production aside from that occasioned from increased output. With increasing technology the commitment of time and money tends to be made more inflexibly to the performance of a particular task. Further, it requires specialized manpower. The inevitable counterpart of specialization is organization which alone can bring the work of specialists to coherent results. All this necessitates detailed planning. Conditions at the time of completion of the whole task must be foreseen and steps taken to prevent the effects of adverse developments and to ensure that what is ultimately foreseen eventuates in fact. The more sophisticated the technology, the greater in general will be all of the foregoing requirements. Technology also puts the problem of planning beyond the reach of individual industrial firms. Technological compulsions (and not ideological or political considerations) require the firm to seek the help and protection of the state. As a fact these are the imperatives of technology.

Extensive Planning

The increased use of technology with its accompanying commitment of time and capital is forcing extensive planning on all industrial societies. As viewed by the economist, planning consists of replacing prices and the market as the mechanism for determining what will be produced by an authoritative determination of what will be produced and consumed at what prices. Vertical integration, the control of prices and consumer demand and absorption of market uncertainty by contracts among firms all favour industry to replace market forces by detailed planning.

The modern giant corporations supply themselves with the capital they now use in massive amounts from out of their own earnings wholly under their control. This means that in their direction, unlike the former entrepreneurs, they are not responsible to their owners but entirely to themselves. It is hard to overestimate the importance of the shift in power Few other developments, according to the author, can have more fundamentally altered the character of capitalism. The decision in the modern business enterprise is the product not of individuals as in the old capitalist system but of groups. The groups are numerous and subject to constant change in composition. Each contains men possessed of the information or with access to the information that bears on the particular decision, together with those whose skill consists in extracting and testing this information and obtaining conclusion. It is what makes modern business possible. Effective power of decision is lodged deeply in this group consisting of technical, planning and other specialized staff. The author calls this group "the Technostructure".

The members of the technostructure who are the paid servants do not get the profits that they help to maximize. The will to make profits is "like the will to sexual expression", a fundamental urge. But in modern business corporation this urge of the technocrats operates "not in the first person but third." It is unfortunate that in teaching the theoretical model-building, the modern large corporation is mostly ignored. The motive to effort has changed. The simple pursuit of personal profit does not explain the behaviour of the modern organization man.

What then are the goals of the technostructure and how are they pursued? In the chapter on "The General Theory of Motivation", the author explains that in addition to pecuniary compensation (which is different from profit motive) compulsion, identification and adaptation motivate the members of the technostructure. The collective influence of these four may be called " the motivating system" of the technostructure. This means pecuniary compensation is only a small part of a large motivating system operating in the inner circle of a modern corporation. This is another fundamental change which capitalism has undergone. Goal of the technostructure is technological virtuosity.

Control Over Prices

Industrial planning requires that prices be under control. Modern technology with its vast commitment of time and capital required for production cannot afford to leave prices to the vagaries of the unmanaged market. The prices therefore are manipulated to secure the goals of technostructure. It minimizes the risk of loss and helps to maximize the growth of the firm. Also the prices must be low enough to facilitate the expansion of sales of ever-increasing goods and at the same time high enough to provide earnings to finance growth and keep stockholders content. Price competition with its attendant dangers must be prevented. Such manipulated prices are readily reconciled with accepted social goals. All this means that price mechanism as conceived traditionally has for all practical purposes ceased to be a guiding influence in capitalism. It has been extensively replaced by "planned decision as to what will be produced, at what prices and for whom." This is the "Revised Sequence".

All these structural changes in the capitalist system imply also change in the relation between the state and industry, which is no longer dominated by private entrepreneurs. The state is strongly concerned with the stability of the economy and its growth. On the ground of national defence, it is also concerned with education and scientific advancement. The goals and the needs of the modern state have their counterpart in the goals and needs of the technostructure which requires stability in demand, trained manpower and government underwriting of research and development. "At each point the government has goals with which the technostructure can identify itself". This also implies that business corporations will hereafter be passive rather than active in politics. These changes in the capitalist system have also important implications for the cold war. Both systems, capitalist and socialist, are subject to the imperatives of industrialization. For both this means planning which in all cases means setting aside the market mechanism in favour of price control. The two systems may use different techniques of

planning but agree on goals. Both systems solicit belief for what serves the goals of industrial mechanism. Instead of the contrast leading to implacable conflict, a more evident economic tendency is convergence.

But the author has however rightly pointed out that "the industrial system is only a part and relatively a diminishing part of life". Aesthetic goals will have pride of place and those who serve them will not be subject to the goals of the industrial system. If other goals are strongly asserted, the industrial system will fall into its place responsive to the larger purposes of the state. The future of the modern society therefore depends upon how willingly and effectively the intellectual community assumes responsibilities for political action and leadership. No society, capitalist or communist, is immune to the impact of technological and industrial developments. There is promise for the future, but there is also peril. The author gives his views on how we should be guided if the promise is to be realised, that is if we are to be the master of the industrial state and not its servant and victim.

To read Prof. Galbraith's book is always both education and pleasure. He communicates easily and spiritedly with the layman as also the specialist. His phrases in earlier books—'the conventional wisdom', 'the countervailing power', etc—have already made their way into English language. He has now given a few more that will stick—'the Technostructure', 'the Revised Sequence', 'the Educational and Scientific Estate', etc. Abstract analysis is mixed with vivid illustrations from a wide field. The author has the knack of giving delightful details (especially in illuminating footnotes). It is rarely that a deep thinker combines scholarship with a sense of humour in the manner Prof. Galbraith does. For those who have read his 'The Affluent Society', this book will come as a splendid tour de force. Gone is the theory of the countervailing power which is replaced by a system where different sections and interests happily and inevitably converge. Do they really converge so beautifully? The picture appears too optimistic to believe.

The author has made a searching analysis of industrially advanced western societies and the reader gets a new insight into their working. It is a pity that modern economic theory still uses the classical model of capitalism to explain the working of the present capitalist system in western countries. There is no doubt that the thesis of this book will be the subject of study for many years to come. The only drawback, if it must be pointed out, is that some of the themes are repeated too often and the entire thesis of the book could have been effectively compressed into half the size of the book.

INDIA AND PAKISTAN

Economic Relations Between India and Pakistan: C. N. Vakil and C. Raghava Rao; Vora and Co. Publishers (P) Ltd; Pp. xii+214; Price Rs. 16.

Reviewed by K. D. SHARMA

What economic opportunities are lost when two neighbouring countries do not co-operate? What impact do economic relations have on the political relations between neighbouring countries? The authors believe that a clear understanding of these questions can lead to a lasting solution of political problems facing both India and Pakistan.

The book is divided into three parts. Part I is a reproduction of "The Economic Consequences of Divided India" by

Mr C. N. Vakil, published in 1950. The authors maintain that it has been included to assist the reader in having a continuous view of the Indo-Pakistan problems in their historical perspective. This chapter may be of interest to research workers and to students of the history of international relations, though it could have been sufficiently reduced for the common reader without affecting the main theme of the book.

In Part II of the book the authors discuss a few of the recent economic problems facing both the countries. Rehabilitation of displaced persons is the first problem discussed. During these 20 years the displaced persons from West Pakistan have been completely rehabilitated in India. The situation in West Bengal is different. It was an overpopulated region and with the inflow of refugees from East Pakistan in greater number than persons migrating from here, it has reached the "saturation" point from the rehabilitation point of view. This inward flow has not stopped even today. Neither has it been possible to rehabilitate all the refugees. There still exist refugee camps in West Bengal. This migration of population cost millions in terms of scarce capital to both the countries. Secondly, the governments of both the countries were faced with the task of evaluating the worth of the immovable property left by the migrants. It has not been possible till now to arrive at any satisfactory solution of this problem. Nor has the reference to an international court of justice, as suggested by India, been agreed to by Pakistan. Implementation of the banking agreement regarding transfer of mobile assets is also far from satisfactory. In the matter of settling the pension and provident fund claims, the Government of India has worked relatively quickly. The value of both movable and immovable property left by migrants from India is much less than that left by those who migrated from Pakistan. Exodus of non-Muslims from East Pakistan still continues. The authors feel that if the Government of India had claimed and pressed Pakistan from time to time to pay the value of properties abandoned by non-Muslims in Pakistan the latter would have taken steps to stop displacement of the members of the minority community.

Disruption of Trade

While discussing the trade between the two countries the authors have rightly taken 1950-51 as the base year. We must remember the fact that before partition these regions formed one composite unit and had inter-dependent commodity movement. With partition this inter-dependence was completely cut off. The governments of both the countries did enter into a number of trade agreements, but still the trade between the two countries has not been established on a firm footing. Further for purposes of analysis and understanding the mechanics of trade, the authors have divided the period from 1950-51 to 1965-66 in three sub-periods i.e. (i) 1950-51 to 1955-56; (ii) 1955-56 to 1959-60; and (iii) 1960-61 to 1965-66. The authors have given a chronological account of events that led to trade agreements of 1955, 1957 and 1960. Since 1965, the trade between the two countries has been suspended. This suppression of trade has not, however, reduced the demands of both the countries, but they have to buy these commodities from other countries at high prices.

In the last chapter of the second part the authors have discussed the financial problems that are pending solution before the governments of both the countries. The origin of the problems date back to 1948, when the sub-continent was divided. Here again the treatment of the problem is in the form of documented account of events.

After discussing the intricacies of the Indus water dispute, the authors suggest that this is probably the only problem that had been satisfactorily solved through the intervention of the World Bank and some friendly countries. However, the attitude of Pakistan can be appreciated from a remark recently made by President Ayub Khan "....the Indus waters treaty was not an ideal one, but it was the best Pakistan could get under the circumstances". The suggestion has been made by the authors that various international agencies and some friendly countries should help both India and Pakistan resolve their unresolved problems. In my opinion the international agencies or friendly countries will never be able to bring about amity between India and Pakistan There is only one way to solve these problems i.e. to force the leaders and policy makers of both the countries to sit at a conference table and leave them alone to solve their problems. This confrontation should be sustained one and should be based an mutual understanding. Reading through the book, the reviewer is struck with the monotony of style. It appears to be more like a "government" white paper on Indo-Pakistan relations rather than an academic exercise by people who have knowledge and expertise.

COMPANY MEETINGS

ASHOK LEYLAND LIMITED

Speech delivered by Sir A. Ramaswami Mudaliar, K.C.S.I., D.C.L. (Oxon.), Chairman, Ashok Leyland Limited, to the Shareholders at the Twentieth Annual General Meeting of the Company held on 4th January 1969 at Ennore, Madras-57.

Gentlemen,

I have great pleasure in extending to you a cordial welcome to the Twentieth Annual General Meeting of your Company. The Directors' Report, the Audited Balance Sheet and the Profit and Loss Account for the year ended 30th September 1968 have been circulated to you and with your permission I shall take them as read

As the Balance Sheet and the Profit and Loss Account have disclosed, the year under review was a difficult one like the previous year. The total turnover for the year, though slightly lower than the previous year's turnover, has enabled us just to maintain the dividend of 8% subject to tax, with a surplus of about Rs 21.73 lakhs which will be retained in the General Reserve.

There has been a great deal of controversy regarding the effects of recession in the country. It is, however, encouraging to note a slight improvement in the offtake of vehicles noticeably in the private sector. In the wake of Central and State Governments' pruning of their expansion programmes and the uncertainties still prevailing regarding planning, not much has happened to improve capital investment in the area of projects, public works and state transports. But yet, the recent Seminar held in Delhi on "International Investment—India" and the reported help of the World Bank to the agricultural productivity of the country have helped to clear to some extent the depression in the Industrial horizon and make one feel a little more optimistic that the coming year will record a general improvement in the economics of the country. It is a great disappointment to the Automobile Industry that Governments, State and Central, have so far given no relief by way of reduced taxation to vehicular traffic and the promised repair to roads falls far short of the assistance required to stimulate the overall economic functioning and development of the Industry. Vehicle manufacturers, dealers and operators are ready to meet the requirements dictated by the ensuing Fourth Plan period but to operate efficiently and economically they must have some relief from taxation and a bolder approach to road development.

I take this occasion to emphasise that the Government will be failing in their objective to hasten the agricultural and industrial progress of the country if, when pruning the Fourth Five-Year Plan, they do not give sufficient importance to the Road Transport Industry side by side with Agricultural production.

In my speech last year, I reported to you that your Directors had resolved to pursue the expansion programmes in spite of difficulties and with this end in view raised the necessary finance for capital expansion through a Sterling Loan from the Industrial Credit and Investment Corporation of India Limited and a Debenture Loan in Rupees of Two Crores. I am glad to inform you that thanks to the generous response of financial institutions, Banks and Insurance Companies, the Debenture has been fully taken up and allotted, while the Industrial Credit and Investment Corporation of India Limited have provided a Sterling Loan of £. One million.

As stated in my speech last year, we hope to have fully utilised these loans and completed the erection of necessary buildings and the installation of plant and machinery and increased the indigenous manufacturing content of the Beaver and Hippo types considerably by the beginning of 1970.

During this period of recession in the home markets, it is natural for your Company, along with other Companies in India, to explore overseas' markets for exporting the Comet chassis. These efforts have been to some degree successful, in that orders were obtained for the Comet Vehicles from the Ceylon Transport Board. In the matter of securing export business for your Company, I am pleased to say that our collaborators, Messrs. Leyland Motors Limited, have full identity of purpose with us and feel quite confident that in the current year considerable progress will be made in the export business.

Consistent with the progressive policy of the Company, the Company's Engineers have been engaging themselves in diversification of production and it is quite gratifying that the new Jumbo Chassis, on the designing of which the Engineers of the Company can take justifiable pride, has had a very encouraging response in the market and already the Order Book is taken up with demands from Projects which require this type of heavy duty vehicle. The Double-deck chassis which has been developed with about 50% indigenous content as well as the Dumpers of heavy tonnage are being received well in the market.

I should like to place on record our thanks to our collaborators, Messrs Leyland Motors Limited, for their help and advice from time to time, and in particular for the unfailing guidance and encouragement we have received from Sir Donald Stokes, Chairman of British Leyland Motor Corporation and I am deeply thankful to him for the continuing interest he is taking in the development of this Company.

I should like to express our special thanks to the Officers of the Central Government for the abiding interest they have taken in the development of this Factory and the helpful attitude they have always taken in solving our problems.

I should like to express our sincere gratefulness to the State Government for the encouragement they are giving and the interest they are taking in the development of this Factory.

The good work done by the executives and other employees of the Company requires special mention and I would like to thank them all on this occasion.

Last but not the least, I have to thank you all, the Shareholders of the Company, for your encouragement and support in our activities.

NOTE: This does not purport to be a record of the proceedings of the Annual General Meeting.

PARRYS CONFECTIONERY LIMITED

The Fourteenth Annual General Meeting of the Company was held on 28th December 1968 at Madras. Presiding over the meeting, the Chairman, Mr. H. V. R. Iengar, made the following points in his Statement to Shareholders.

Sales during the year ended 30th September 1968 amounted to Rs 4.62 crores as compared with Rs 4.01 crores last year, reflecting an increase of Rs 61 lakhs. In terms of volume, however, there was a marked drop and as a result, the net profit for the year, before deduction of tax, was Rs 20.61 lakhs as against Rs 27.29 lakhs last year and after providing for taxation, the net profit was Rs 7.11 lakhs compared with Rs 8.79 lakhs last year.

The Directors have recommended a final dividend of 11.5% on the Ordinary Share Capital which together with the interim dividend of 6.5% already paid makes a total of 18% for the year, the same as for the previous year.

Out of the profit of Rs 7,15,671 available for appropriation Rs 2,09,000 has been transferred to Development Rebate Reserve and the dividends, both interim and final, amount to Rs 5,04,000 leaving Rs 2,671 to be carried forward to next year.

In the wake of partial decontrol of sugar in November 1967, confectionery factories, who were till then allotted sugar at the controlled price, were asked by Government to buy it in the open market. In consequence of the high cost of free market sugar, a steep price increase in confectionery prices became inevitable. The cost of other raw and packing materials also rose.

The hope expressed last year that conditions would stabilise to help maintain production was not realised because of an excise levy on confectionery effective from 1st March 1968 at 80 paise per kilogram. A further increase in price had to be resorted to and with the earlier increases, prices were up by 40%. This has resulted in consumer resistance and many units in the organised sector are passing through a very difficult time.

The industry's repeated request to Government for relief has been in vain. Production and sales figures have dropped appreciably during the year, whereas the units in the unorganised sector who have been exempted from the excise levy are capturing the market with products of doubtful quality.

The low off-take in the organised sector of materials subject to excise duty must necessarily cause an additional loss in revenue to Government, not to mention the loss of sales tax and corporate income-tax on lower sales and profits. If relief cannot be given by way of exemption from excise duty, the Government should at least restore the allotment of controlled sugar to the confectionery industry.

Although a good deal of rehabilitation and modernisation has been effected at the factory, the possibility of further imports of machinery is being constantly explored to keep abreast of modern developments.

In the absence of improved incentives and owing to the rise in the cost of production outstripping the present incentives, our export efforts are confined to the extent absolutely necessary.

Unless the Government of India consider favourably the industry's request for sugar at the controlled price, particularly as free market sugar prices are not likely to come down to the levels anticipated, it is expected that there will be some contraction in profits for the current year although everything possible will be done to effect economies in production and selling costs.

N.B.: This does not purport to be a report of the proceedings of the General Meeting.

(The full text of the Speech has been sent to all Shareholders)

RECORDS AND STATISTICS

Guidelines for Joint Overseas Ventures

THE GOVERNMENT of India approves joint overseas ventures provided Indian investment is limited to the value of indigenous machinery, equipment, tools, etc required for the new venture. The government does not allow cash remittances for investment abroad.

Normally the government favours minority participation by Indian parties, i.e. up to 49 per cent. The intention is that foreign local parties should have majority participation. If in a particular case, the Indian party is in a position to supply machinery etc to a greater value than his equity participation, the government welcomes such a scheme as the excess machinery etc. could be sold straightaway for cash and to that extent it will mean an earning of foreign exchange.

Usual import replenishments available to registered exporters will also be allowed on export of machinery for investment as equity capital abroad. Machinery exported should be of Indian make; no second-hand or reconditioned machinery would be allowed for export against Indian investment as it is feared that might bring us a bad name in the long run.

The government favours association of local parties in foreign countries; also local development banks, financial institutions and local governments. As far as possible, Indian industrialists should propose a turnkey job as this will lighten the responsibilities of the foreign local party. The government also favours Indian parties providing in their agreement with foreign parties for training facilities in India to nationals of the country of investment.

After preliminary discussion with the foreign party by correspondence or visits to the foreign country, an outline of the proposed scheme for investment should be sent to the Government of India for securing its approval in principle to the scheme. The outline scheme should indicate broadly the nature of the project, total cost, financing of the project, extent of Indian participation (including value of machinery, tools, equipment, etc.), scope for future export from India or raw materials or components etc. On receipt of the government's approval in principle, details may be worked out with the foreign party on the understanding that final agreement reached would be subject to Government of India's approval.

JOINT INDUSTRIAL VENTURES APPROVED BY THE GOVERNMENT OF INDIA TO BE SET UP ABROAD WITH INDIAN COLLABORATION

Country/Field of Collaboration	Extent of Indian participation (In Mill. Rs unless otherwise indicated)	Indian collaboration	Date of sanction	Remarks
		AFRICA		
Ethiopia				
Textiles	0.57	M/s Birla Brothers (P) Ltd., Calcutta	1959	In operation
Soap factory	1.00	Bombay Soap Factory, Bombay.	February 8, 1965	Likely to commence production soon
Woollen textile mill	0.85	Duncan Brothers, Calcutta.	June 16, 1965	In production
Plastic processing plant	0.30	Duncan Brothers Calcutta	August 4, 1965	
Clock assembly plant	0.04	Duncan Brothers Calcutta	November 8, 1965	
Subscribing to the share capital of M/s Fibre Share Co. of Ethiopia	0.90	Birla Brothers (P) Ltd., Calcutta	October 26, 1967	The company is already in existence
Razor-blade factory	1.90	H. L. Malhotra & Sons (P) Ltd., Calcutta	June 1, 1963	Abadoned
Ghana				
Manufacture of small wheel-type agricultural tractors	0.54	M/s Escorts International, Faridabad	August 25, 1967	
Kenya				
Textiles	1.66	R. M. Goculdas, Bombay	September 26, 1964	In production
Gripe water plant	0.1	K.T. Dongre & Co., Bombay	February 16, 1966	In operation
Pharmaceutical plant	0.25	Karamchand Premchand, Ahmedabad.	March 9, 1966	
Manufacture of printing inks and allied products	0.52	Mr N. L. Contractor, Bombay	May 24, 1966	
Woollen textile mill	2.1	Raymond Woollen Mills, Bombay	March 25, 1966	Likely to commence production soon

JOINT INDUSTRIAL VENTURES APPROVED BY THE GOVERNMENT OF INDIA TO BE SET UP ABROAD WITH INDIAN COLLABORATION (Contd.)

Country/Field of Collaboration	Extent of Indian participation (In Mill. Rs unless otherwise indicated)	Indian collaboration	Date of sanction	Remarks
Manufacture of fluorescent fixtures and accessories	0.15	Premier Lighting Industries (P) Ltd., Bombay	April 14, 1966	
Light engineering complex	2.1	H. L. Malhotra & Sons, Calcutta	July 12, 1966	In operation
Cork factory	0.75	Indian Cork Mills, Bombay	January 7, 1967	
Paper & pulp project	13.50	Birla Brothers, Calcutta	April 16, 1968	
Libya				
Pipes	0.80	Indian Hume Pipes., Calcutta.	September 16, 1963	In operation
Asbestos cement products plant	1.05	Birla Brothers (P) Ltd., Calcutta	March 25, 1968	
Nigeria				
Engineering goods	1.60	Birla Brothers (P) Ltd., Calcutta	September 26, 1963	In operation
Textiles	4.05	Birla Brothers (P) Ltd., Calcutta	October 7, 1963	
Solvent extraction plant	0.26	Birla Brothers (P) Ltd., Calcutta	November 7, 1964	In operation
Palm kernel crushing plant	0.67	Birla Brothers (P) Ltd., Calcutta	November 27, 1964	
Razor-blade factory	1.60	H.L. Malhotra & Sons, Calcutta	January 2, 1965	
Pencil factory	0.10	Standard Pencil Factory, Madras	December 14, 1964	
Tanzania				
Pharmaceutical plant	0.2	Mrs Sarla Somani, Bombay	November 2, 1965	
Re-rolling mill	0.50	Mukand Iron & Steel, Works, Bombay	January 10, 1967	Abandoned
Uganda				
Sugar	56.40	Indian Consortium	September 14, 1964	
Jute mill	Not yet finalised	Birla Brothers, Calcutta	April 25, 1968	
Zambia				
Construction company	0.45	R.M.Goculdas, Bombay	January 3, 1968	
Enamelware factory	1.00	Bengal Enamel Works, Calcutta	October 16, 1964	
Re-refining used lubricants	1.00	Shri N. V. Desai, Bombay	May 1, 1968	
		SOUTH ASIA		
Ceylon				
Manufacture of sewing machines	0.51	Jay Engineering Works, Calcutta	1961	In operation
Electro-static Tea leaves/stalk separator machines	N.A.	General Industries Co., Calcutta	July 30, 1965	
Glass factory	0.19	Swastik Glass Works, Chanda	January 28, 1967	
Manufacture of PVC leather cloth	0.35	Bhor Industries (P) Ltd., Bombay	October 5, 1967	
Manufacture of trucks	5.40	Ashok Leylands, Madras	April, 1967	
Iran				
Manufacture of non-ferrous semis	0.25	Kamani Metals & Alloys Ltd., Bombay	March 9, 1964	In production
Manufacture of spareparts, automotive components	0.49	Mahindra & Mahindra Ltd., Bombay	November 7, 1966	
Trailer industry	1.22	Mahindra & Mahindra Ltd., Bombay	January, 1964	Permission withdrawn
Electric Motors & Transformers	0.75	Electric Construction & Equipment Co., Calcutta	February 8, 1965	
Hose pipes	0.26	Cosmos India Rubber Works, (P) Ltd., Bombay	August 7, 1965	Abandoned

JOINT INDUSTRIAL VENTURES APPROVED BY THE GOVERNMENT OF INDIA TO BE SET UP ABROAD WITH INDIAN COLLABORATION (Contd.)

Country/Field of Collaboration	Extent of Indian participation (In Mill. Rs unless otherwise indicated)	Indian collaboration	Date of sanction	Remarks
	WEST ASIA			
Iraq				
Manufacture of concentrates for soft drinks	5.76	Parle Bottling Co. Pvt. Ltd., Bombay	September 18, 1967	
Lebanon				
Pesticidal formulation unit	0.42	Dr A. Sarup, Calcutta	July 26, 1967	
S. Arabia				
Manufacture of refrigerators, air-conditioners, air-coolers	0.13	Birla Brothers (P) Ltd., Calcutta	January 7, 1965	
Asbestos cement products plant	2.50	Birla Brothers (P) Ltd., Calcutta	June 25, 1965	
Vanaspati plant	1.5	Ahmed Comerbhoy, Bombay	October 14, 1965	
Afghanistan				
Manufacture of sewing thread balls etc.	0.1	Darbar & Co., Delhi	June 2, 1968	
	EAST ASIA			
Indonesia				
Rubber products	0.90	Cosmos India Rubber Works, Bombay	May 15, 1968	
Malaysia				
Manufacture of steel furniture	1.67	Godrej & Boyce Mfg. Co. (P) Ltd., Bombay	August 30, 1965	Trial production commenced.
Manufacture of zinc-oxide	0.055	Inter Trade Corporation, Visakhapatnam	May 28, 1966	
Cotton textile mill	6.12	Birla Brothers, Calcutta	October 9, 1964	
Manufacture of glass bottles	1.15	Jg Glass Industries, Poona	March, 1968	
Singapore				
Manufacture of fluorescent fixtures and electrical appliances	0.50	Shri Ishwar Parekh, Bombay	January 10, 1967	Abandoned
Thailand				
Steel mill	Not yet fin.	Shri S. A. Jifri, Madras	July, 1968	
	WESTERN EUROPE			
Ireland				
Manufacture of nylon bristles	0.4	Garware Plastics (P) Ltd., Bombay	October 7, 1966	
Manufacture of tufted carpet yarn	2.52	Mafatlal Gagalbhai Co. (P) Ltd., Bombay	March 4, 1968	
N. Ireland				
Asbestos cement products plant	0.14 (approx.)	Birla Brothers (P) Ltd., Calcutta	November 7, 1964	
Light engineering goods factory	0.22 (approx.)	Birla Brothers (P) Ltd., Calcutta	November 7, 1964	
UK				
Asbestos cement products plant	2.10	Birla Brothers (P) Ltd., Calcutta	June 24, 1965	
	NORTH AMERICA			
Canada				
Hardboard factory	3.75	Anil Hardboards Ltd., Bombay	July 23, 1965	In operation
	SOUTH AMERICA			
Columbia				
Manufacture of twist drills	0.5	Indian Tool Manufacturers Ltd., Bombay	August 4, 1965	


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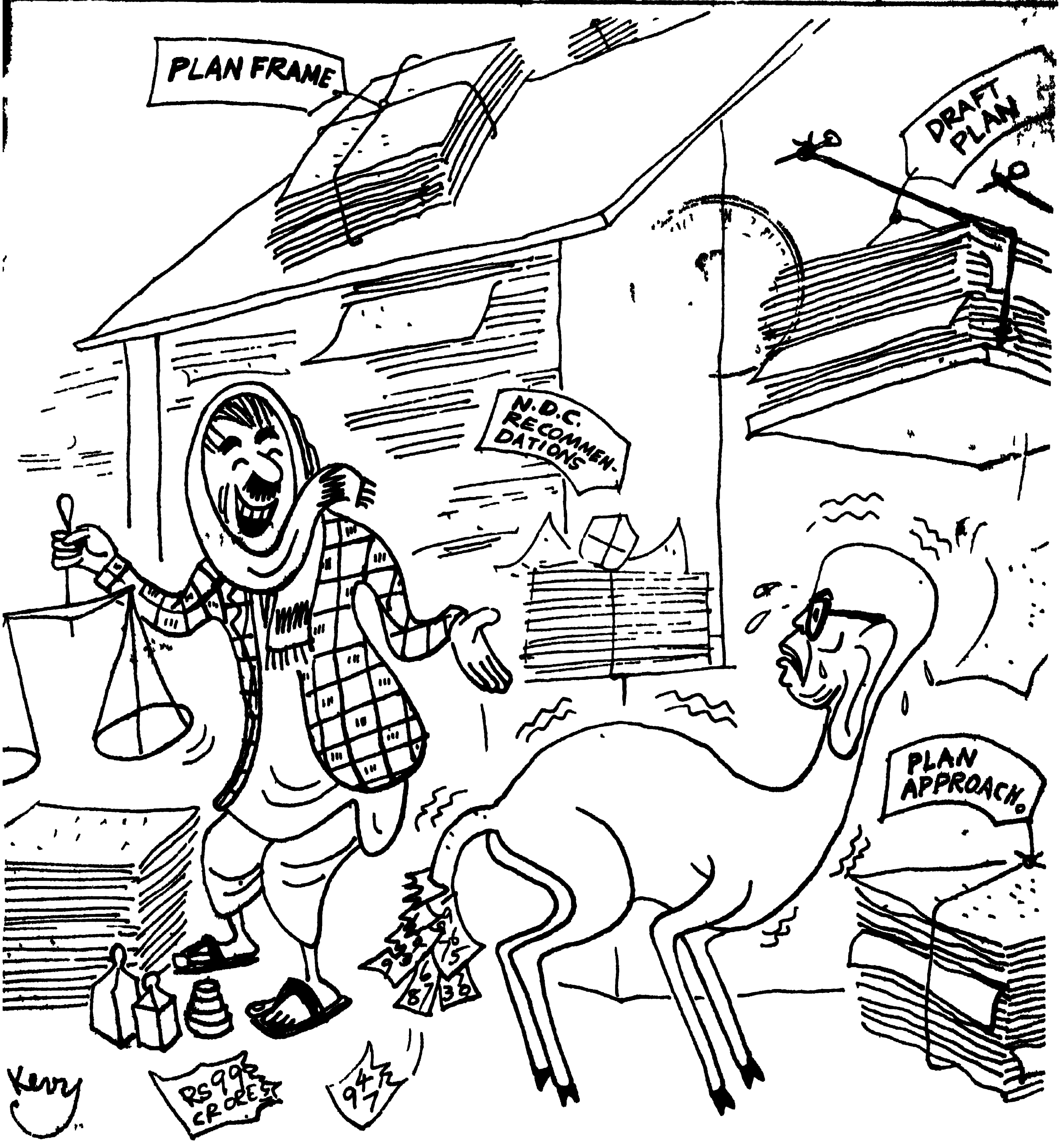

Ga Ga Gadgil, Have you any plans?

EASTERN ECONOMIST

JANUARY 17, 1969

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The Meaning of Nagercoil

IT IS a sad commentary on the state of maturity of the press of this country that, both before and after the Nagercoil by-election for the Lok Sabha, much of the writing, whether in the news reports or in the editorials, was inclined to picture the issue involved as one of the personal prestige or political future of one of the candidates, namely, Mr Kamaraj. It was obvious, surely, that what was being tested at this contest was a matter of far greater public importance which was whether and to what extent the DMK had been able to preserve and promote the extremely impressive political capital which had fallen to its share as a result of the last general election.

We would readily grant, of course, the significant contribution which Mr Kamaraj's political personality and basic personal popularity among the people of Tamilnadu, undoubtedly, made to the success of the Congress party in the defeat of the DMK-backed Dr Mathias of the Swatantra Party. We are also prepared to concede that Mr Kamaraj's election to the Lok Sabha, which has been described in the language of space technology as his "re-entry" into national politics, is not without interesting possibilities for speculation among political book-makers in the capital or elsewhere. But we do maintain that these aspects are far less significant than the central implication of the Nagercoil by-election which, we submit, had to do with what the DMK has been able to make of its emergence as the dominant state party in Tamilnadu.

Predictably, attempts have been made in certain quarters to make light of the vast superiority of the Congress vote in the Nagercoil by-election. The fact that the parliamentary constituency concerned has a large population of persons of the same community as Mr Kamaraj has been emphasised repeatedly, but the insinuation here tends to ignore the fact that the presence of a large Nadar community in the Virudhunagar constituency could not save Mr Kamaraj from a bad defeat in that constituency, which, moreover, is his home ground, at the last general election. The DMK minister, Mr Karunanidhi, who masterminded the campaign for Mr Kamaraj's principal opponent, has been in a hurry to imply that the Congress success was brought about by resort to violence and coercive tactics. It is, no doubt, true that excessive and entirely unnecessary tensions were created in the course of election propaganda, leading to clashes among rival groups, and violence, including a murder. The responsibility for this unhappy episode is yet to be objectively apportioned and Mr Karunanidhi's attempt to disclaim the accountability of his own party can only be treated, in the meanwhile, as a partisan exercise. As for the suggestion that the Congress won by exerting undue pressure on the electorate, there is the much more respectable counter-argument that Mr Karunanidhi and other DMK ministers, besides actively and personally participating in the campaign on behalf of Dr Mathias, did not seem to have shown any hesitation or scruples in drawing on the administrative machinery and other resources of the state government for the purpose. In the circumstances, there is very little to be gained by the opponents of the Congress party from quibbling about the dimensions or the decisiveness of the victory of that party's candidate.

The Congress party, of course, would be well-advised not to read too much into its success at this by-election. In considering the power equation between the Congress party in Tamilnadu and the DMK, several

factors have to be taken into account. The Congress, after all, had to field the most prestigious candidate available to it for the occasion and that too in a constituency which had demonstrated its Congress sympathies at the last general election. Any talk of this party having managed to stage a come-back in state politics as against the DMK will have meaning only if and when it has succeeded in a certain number of by-elections to the state legislature. All that can be claimed at the present time is that, besides having its morale boosted—a treatment which this party needed badly after its disaster at the last general election—, the Congress in Tamilnadu has also gained by being provided with an opportunity to rise above its domestic dissensions and the personal rivalries among its leaders or would-be-leaders. It is, perhaps, in this manner, rather than in any larger national terms, that the big majority which Mr Kamaraj was able to secure is likely to make its contribution to the shape of Congress politics to come.

It is, however, on the fortunes and the future of the DMK that the Congress victory at Nagercoil should have its most significant impact. It was being freely suggested in the weeks before the by-election that the DMK was not too keen on ensuring the defeat of Mr Kamaraj, and that, at any rate, its leader, Mr Annadurai, would not be unhappy if Tamilnadu were to secure the advantage of electing to the central legislature one of the state's leading politicians, who could also be expected to participate effectively in the councils of the party ruling at the national level. Whether this suggestion had any force or not, what was actually seen at the Nagercoil by-election was an undoubtedly enthusiastic and even fervently partisan campaign on behalf of Dr Mathias by the DMK ministers who were not only aided by the party organisation but were also abetted by the resources of the state government.

It was, probably, the case that neither Mr Annadurai nor his colleagues in the DMK were, at any time, completely confident of securing the defeat of the Congress candidate, but it is a reasonable inference that the size of the vote so overwhelmingly cast for Mr Kamaraj should have come as a shock to them. One swallow does not make a summer and a single by-election success for the Congress party in Tamilnadu may not necessarily spell the advent of a political winter for the DMK. It is nevertheless not fanciful to suggest that the mystique, on the strength of which the DMK gained its supremacy in state politics at the last general election, is beginning to wear thin so far as the larger public of Tamilnadu is concerned. The hard core of DMK loyalty may be as firm now as it was before, but the wide support from the less committed sections of the public which gave the DMK its massive electoral success at the last general election, now appears to have come under a process of reconsideration.

This is not surprising. Over the months it has been in power in the state, the DMK ministry has been unable to show convincing proof either of its willingness or of its ability to acquire the very necessary qualities of a maturity of political judgment or an understanding of the processes or the problems of administration. It is not so much that it has not been able to fulfil its more propagandist election pledges as that it has failed, in comparison with its Congress predecessor, to maintain a high level of vigorous activity in the economic life of the state. Industrial activity in Tamilnadu had undoubtedly been sluggish in the last two years and this cannot entirely be explained away by a reference to the wider industrial recession in the nation as a whole. Indeed, but for the basic strength displayed by a fairly modern small-scale sector of industry in Tamilnadu, the position would have been much worse than what it is. Even so, Tamilnadu seems to be slower in recovering from the general industrial recession than certain other parts of the country, while so far as the emergence of new industries is concerned, it is markedly lagging behind Gujarat and Maharashtra. In this respect, the present Madras government suffers in comparison even with Mysore and Andhra Pradesh where the ministries concerned seem to be more alert to their obligations for encouraging entrepreneurial activity.

It is, probably, true that the DMK is now being made to pay for the electoral benefit it got from communist co-operation at the last general election in organising straight fights against Congress candidates. The communists, certainly, have been exploiting this political relationship for improving their influence or extending their hold over organised industrial labour in the state. In this area, the DMK has been at a disadvantage since its inexperience in the trade union movement has come in the way of its turning to its benefits such decline as there may have been in Congress authority among organised workers following that party's eclipse at the last general election. It is, however, in the agrarian field that the communists have been able to do the most damage to the DMK's ability to provide a good government or a strong administration. The violent agrarian unrest which is sweeping over Thanjavur district, the main rice-producing area of the state at the peak of harvest operations is but the predictable consequence of the DMK's failure in preventing the communists' influence from getting out of hand.

Still Nagercoil may perhaps mark a healthy turning point for the DMK in its uneasy relations with the communist movement in Tamilnadu. The decision of the Marxist communists to set up their own candidate for the Nagercoil by-election, rather than co-operate in a united opposition to the Congress candidate, was a clear indication that this party wanted to force the issue of the future of its political relationship with the DMK. Mr Annadurai, evidently, has no alternative to taking up this challenge. It is, of course, important not only for him and his party but

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Trade Winds	TW
Window on the World	WW
Books Briefly	BB
From the Capital's Cupboard	CC
Silver Jubilee Number	SJ

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for the political stability and economic prosperity of Tamilnadu that he should not funk the confrontations which have been forced on him. This is all the more important because the Swatantra Party, which could have been an effective counter-force to communism, whether at the national level or in the states, seems chronically unable to gather the necessary mass momentum. The crushing defeat of its candidate at Nagercoil has highlighted its continuing inability to generate and organise popular backing for its political purposes.

It is no doubt a good thing for our country that, despite the difficulties and disappointments it is facing, the Swatantra Party has not given way to frustration. The manifesto which it has released recently in preparation for the mid-term elections in the four states where there is now President's rule, is a welcome re-assertion of its willingness to experiment with newer approaches in its bid for popular acceptance, while remaining steadfast to its first principles. Unfortunately, except in Orissa, it has so far not been able to grow into anything more than a marginal factor in party politics. Its fundamental weakness is that it still remains an army mostly of generals—and not all of these generals seem to consider themselves to be on the active list.

In the specific terms of the politics of Tamilnadu, the ineffectiveness of the Swatantra Party makes it all the more necessary for the DMK to re-examine and re-define its own relations with the communists in the state so that the waning public confidence in the DMK's capacity to govern and promote orderly agricultural progress and industrial growth may be revivified. This, surely, ought to be the immediate preoccupation of Mr Annadurai and his colleagues. This is, certainly, not the time for them to fritter away their energies in such frivolous activity as quarrelling with the central government over the timings of AIR's news broadcasts. Nagercoil ought to be a warning to Mr Annadurai and his partymen that it is high time that they had started attending to the promotion of the effectiveness of the DMK as a ruling party rather than the preservation of the supremacy of English over Hindi.

IAC: A Good Take-off

IT IS, indeed, a matter of gratification that the performance of the Indian Airlines Corporation (IAC) has improved considerably during the last 21 months. As against an operating loss of Rs 2.78 crores in 1966-67, it showed an operating profit of Rs 1.33 crores in the year ended March, 1968. Although this profit was somewhat lower than the 1964-65 profit of Rs 1.64 crores, it was substantially higher than in any of the other nine years of the last decade. The overall loss of the IAC last year (after providing for interest and other financial charges) was a bare Rs 38.11 lakhs, as against Rs 4.24 crores in 1966-67.

The improvement in the working of the IAC last year was, of course, partly due to the increase in fares (by 15 per cent on all routes, except those in the eastern region where the increase was five per cent) effected on August 1, 1967, with a view to offsetting the increased expenditure arising out of the devaluation of the rupee and increased pay and allowances of staff. But the more important factors responsible for it were an encouraging growth in passenger traffic and the concerted efforts made to bring down operating costs. Despite the recession in the economy, the passenger traffic on the airlines last year increased by 17.6 per cent—from 1.41 million passengers in 1966-67 to 1.66 million in 1967-68—as against by 16.9 per cent in the previous year. This, along with the enhancement of fares, resulted in the revenue per available tonne kilometre (ATKm) going up from Rs 1.64 to Rs 1.69. The reduction in the operating costs, however, was more significant—from Rs 1.80 to Rs 1.62 per ATKm. This was brought about by better utilization of resources, both in men and materials. On an average, the monthly utilisation of captains rose from 53 hrs 45 mts to 56 hrs 25 mts. The annual utilisation of aircraft (average for all types) increased from 1,759 hrs to 1,819 hrs. The utilisation of Caravelles and Friendships was more significant—it increased from 2,751 hrs and 2,102 hrs to 2,831 hrs and 2,248 hrs, respectively.

The corporation recorded two other significant achievements last year. It became, for the first time in its history, a net earner of foreign exchange. The foreign exchange earnings of IAC last year aggregated Rs 6.89 crores. The outgo of foreign exchange on account of imports of spares and payment of instalments for the aircraft purchased under the deferred payment scheme amounted to Rs 5.09 crores. Secondly, the corporation increased its passenger carrying capacity by as much as 25 per cent—from 165 million ATKms to 205 million ATKms. This was achieved through the acquisition of new aircraft and an increase in the flying hours of Caravelles, Friendships and HS-748s. Since the growth in traffic was less than the capacity created, there was inevitably a reduction in the overall load factor from 72 per cent to 65 per cent. This increased capacity, however, is proving helpful in the current year during which the airline hopes to carry nearly 1.9 million passengers, as against 1.8 million anticipated earlier. By the end of the first eight months the IAC is understood to have carried the passenger traffic anticipated for the whole year. If control over operating expenses continues to be rigorous, this year's working should not only throw up a

sizable operating profit but may also yield a modest overall profit.

The financial results of the IAC would have made much more pleasing reading but for the high fuel costs. The fuel costs have been inflated not only by high customs and excise duties but also by the imposition or enhancement of sales tax on aviation fuel by a number of state governments. The expenditure on fuel alone is stated to account for nearly 24 per cent of the total expenditure of the IAC, as against seven to 15 per cent by other airlines, domestic or international. If the performance of the IAC is judged by equating its expenditure on fuel with that of other airlines, it should compare very favourably with most airlines of the world.

The encouraging growth in passenger traffic points to the need for the corporation augmenting its fleet soon. By 1973-74, it is expected that the number of passengers carried would have more than doubled to approximately 3.52 million compared with the 1967-68 figure. The ATKms are expected to reach 391.63 million. In the face of this growth in traffic, is it not regrettable that there has been an inordinate delay in the clearance of the IAC's proposal for the purchase of additional aircraft? Even the consideration of the proposal to order one additional Caravelle immediately is said to have been shelved.

The main hitch over the augmenting of the IAC's fleet apparently is that the government has not yet been able to make up its mind on whether the new aircraft should be acquired from the Soviet Union or the United States. No doubt the purchase of Russian aircraft will obviate payment in foreign exchange as our trade with the Soviet Union is in rupees and we have a sizable balance in our favour; the purchase of American aircraft, preferred by the IAC, on the other hand, even on deferred payment basis, would involve some down payment in cash. But, as against this, the American aircraft has been adjudged by technical experts to be more suitable for the IAC's operations. Although technically quite sound, the Russian aircraft, compared with the American planes, has higher fuel consumption because of its high-powered engines. Further, it requires a navigator in addition to two pilots, required to fly a US-made aircraft. The break-even point of the Russian planes is also very high—110 per cent of the capacity on 450 miles stage lengths and 90 per cent on 650 miles stage lengths—as against 49 to 52 per cent in the case of American aircraft. One advantage of the Russian plane, however, is that in times of emergency, it can be converted easily into military aircraft.

As between the two competing American aircraft, IAC's preference is for DC-9s the break-even point of which is 49 per cent of the capacity. Further, DC-9 is a medium-sized plane suitable for 500-1,200 miles sectors, as against the bigger Boeings which have a passenger-carrying capacity of 155 and an economical distance range of 1,000-2,000 miles. The break-even point of Boeings is said to be around 52 per cent. Certain other factors are also in favour of DC-9s. For instance, their profitability is stated to be 27 per cent, which means that in four years their earnings will cover the investment. When IAC is confident of financing the purchase of DC-9s from its own resources, the delay in the clearance of its proposal apparently is due to the import of political considerations into the matter.

Tea for the Prime Minister

THE FACT that the Chief Minister and the Finance Minister of Assam had to plead personally with the Prime Minister recently for the removal of export duty and the reduction of excise on tea gives an indication of the seriousness of the situation confronting the tea industry. Mr B. P. Chaliha, the Chief Minister, and Mr K. P. Tripathy, the Finance Minister, are reported to have impressed on Mrs Gandhi that unless these measures were taken, not only Assam's tea industry but the entire economy of the state would suffer. Already a few tea gardens in Assam had been closed, rendering about 10,000 persons jobless. About 75 per cent of the tea gardens in Assam are estimated to have incurred heavy losses in 1968 and the remaining 25 per cent are likely to earn only marginal profits. The representatives of the Government of Assam have pointed out that about 75 per cent of the state's rural markets are being fed by the tea industry whose investment exceeds Rs 150 crores.

The present plight of Assam's tea industry could have been averted easily if only the Government of India had taken a sympathetic interest in the difficulties facing this industry. It has been repeatedly pointed out that the tea industry has derived little benefit from the devaluation of the rupee in June 1966. On the other hand, the fall in tea prices and the devaluation of sterling and the Ceylon rupee have considerably affected our tea industry's profitability. The prices realised by the tea industry up to November 13, 1968, were about 12 per cent lower compared to the previous season while exports in January-October 1968 earned only Rs 133 crores compared to Rs 141 crores in the same period of the preceding year. The reliefs announced by the Government of India from time to time have been wholly inadequate to improve the competitive capacity of the industry. As the Tea Association of India said, in a memorandum to the Government of India in December last year, "the reliefs granted are marginal and fall much short of what is needed by the industry for offsetting the loss arising out of the sterling devaluation. The recent rebate in export and

excise duties works out to 20 paise per kg (11 paise reduction in export duty and nine paise average reduction in excise duty), whereas export duty abolition would have meant a relief of Rs 1.38 per kg. As the costs of the industry have gone up by nearly 20 paise per kg during 1968, there is not only a case for the abolition of export duty but also a need for refund of excise duty on exports. Besides, due note has also to be taken of the higher landing cost for Indian teas in the foreign markets which is due to excessive taxation on export teas. The gap as far as East African teas is concerned is between Rs 1.70 to Rs 2 per kg."

Hitherto the demand for the removal of export duties and excise duties was made only by the tea trade and industry. Now that the Government of Assam has also strongly backed up this demand, the Government of India should not hesitate to consider it favourably. Tea production in Assam in 1967 was 189.93 million kg compared to 181.89 million kg in 1966 and the average yield per hectare 1,091 kg against 1,098 kg in 1966.

In 1962 the National Council of Applied Economic Research highlighted some of the handicaps of the Assam tea industry. It said: "The tea industry of Assam has some serious problems. There are a number of uneconomic tea plantations, mostly concentrated in the Cachar district. There are 37 such gardens in Cachar, occupying an area of about 10,000 acres and producing about 3.3 million lbs of tea annually. The causes of economic weakness of tea gardens are both technical and economic. The technical causes are related to plantation as well as manufacture. The principal drawbacks of the plantation are a high percentage of vacancy, old age of the bushes, and unscientific technique of cultivation. The processing of green leaves suffers due to worn-out machinery and inefficient handling, and a high percentage of non-utilization of the capacity of the factory. The prominent economic factors are heavy indebtedness (Rs 900 per acre), paucity of capital, inefficient management, transport difficulties and price fluctuations. Labour troubles appear to be both a cause and an effect of economic weakness. There is no single comprehensive solution to this problem of uneconomic gardens. The problems leading to economic weakness vary from garden to garden. What is required is a detailed technical-cum-economic survey of each of the uneconomic gardens so that the particular problems of the gardens may be identified. While economically weak tea gardens are the special problem of the Cachar district, old age of the bushes and high cost are a general malady of the entire tea area of Assam. There has been very little of replantation in the tea gardens for decades. Invariably the bushes are over 50 years old against a normal economic life of 40 years. This has seriously affected the yield and efficiency of the gardens."

Regrettably, far from helping Assam's tea industry, the Government of India has imposed more fiscal burdens on it in recent years, thereby affecting its finances adversely. For instance, the average rate of excise duty on north Indian tea has gone up from 41 paise per kg in 1963 to 62 paise per kg in 1967.

The FAO *ad hoc* consultations on tea held in Kampala from January 6 to 14, considered measures for ensuring an orderly development of the tea industry in the world. The surveys carried out recently by the FAO as well as other organisations have revealed clearly that there is at present an excess of supply over demand and that this imbalance will progressively worsen up to 1975. It has also been pointed out that the average stocks of unsold tea in London in 1968 were 186.3 million lbs or 84.5 million kg compared to the average stock of 133 million lbs or 60.3 million kg in 1956-58. The consensus in our industry is that while it may be desirable to regulate exports of the producing countries for some time, it will not be necessary or proper for this country to agree to any control on production in view of our large and growing domestic market. Whatever may be the nature of the conclusions arrived at in Kampala, it is clear that the tea industry in our country needs to be greatly strengthened if it is to play its part effectively in our foreign trade. Now that the industry's problems have been brought directly to the notice of the Prime Minister by the Government of Assam, it is hoped that they would be tackled with sympathy and speed.

State Policy on Industrial Development

S. K. RAY

WHEN a country decides to adopt industrial development as a major national objective, it is supposed to have made a historic choice. It is understood that behind the decision is an appreciation of certain basic prerequisites of state policy. The period of industrial development will require the use of scarce foreign exchange and indigenous resources for generation of industrial equipment, instead of consumer products, throughout the period of gestation. It will mean that the market will become increasingly reserved for indigenous industry. It will also mean heavier burden of taxation and public financing in order to subsidise the early years of industrialization which "are necessarily years of investment by the people in anticipation of the production of a larger national income in future years"(1)

When industrialization comes to a country not as a matter of slow and painful evolution but as an outcome of a deliberate public policy, the choices made and the prices to be paid are pre-determined. Industrialization in some Latin American countries and, to some extent in Japan and the Philippines, has come about through such expedients.

In the industrial development of India, the stewardship of the state was necessarily oriented to needs of 'imperial preference' in the years of British rule.(2) Industrial development therefore went little beyond development of mineral ores and their export in crude or semi-finished form, apart from such fields as tea, jute and cotton textiles, where foreign capital could generate ready return for repatriation.(3)

It was only much later, around the 'forties, as a sequel to powerful econo-political opinion, that a state policy on industrial development started to take shape. Even then, prior to the attainment of Independence, the state had no exclusive preserve in the industrial field but for defence industries and some other stray industrial enterprises. Roughly, since the Ramaswamy Mudaliar Consultative Committee of Economists met in 1941, the need for state planning and enunciation of the government's industrial policies began to be buttressed. The committee drew its personnel mainly from the universities and therefore had an academic bias; it suggested the formulation of positive policies in regard to the development of industries and commerce, as also transport, banking, currency and foreign exchange.

Effective Background

The academic approach put forward by the committee, however, formed effective background for further research in the line. The Bombay Plan(4) was published in 1944. The framers of this plan charted out a development programme which was, in a word, over-ambitious.

Under the Bombay Plan emphasis was placed upon industrialisation and rising productivity, with an accompanying trebling of income in fifteen years. The planners indicated the distant goal but they made no attempt to build the road to it or even remove the under-brush. Their plan was in fact therefore little more than a statement of objectives and an exercise in arithmetic.(5)

All these, however, did not culminate in anything more than academic discourses. In the absence of any explicit industrial policy of the government, the Planning and Development Department, appointed by the Government of India in 1944, went little beyond official routine.

Independence came in 1947. And it underlined the necessity for planned and co-ordinated development of industries. For that a rather practical overhauling of the hitherto academic approaches towards industrial policy became imperative. The theories of industrialisation and growth were undergoing evolution to fit in the special, particular and characteristic problems of the under-developed economies, from the viewpoints of structural pattern and institutional change. The basic point which was being increasingly emphasised in literature on industrial development was that, within each developing country there were a number of barriers which stood in the way of economic and industrial growth. Some of these could be removed within a limited period of joint state and private effort; but others were more or less inherent and could be changed rather slowly.

If we are concerned with long-term studies of changes in propensities, or if we wish to account for differences between groups or countries, we have usually to look beyond the boundaries of classical economic theory, except possibly the Keynesian concept of 'chronic under-development'—elaborated further in the theory of 'secular stagnation' of Hansen. A whole range of new theories of growth were being evolved, particularly in the context of industrialisation in developing economies such as ours.(6)

Mixed Economy

It was becoming increasingly evident that India would like to pitch her policy on industrial development midway between the economics of free enterprise and the totalitarian Gosplan. In the Indian context, the new theory of growth in relation to under-developed economies under the pseudonym of the doctrine of mixed economy was a pointer to the policies of nurture and induced initiative in the field of industrial development. The first major enunciation of the principles of state policy took place in 1948 when the Industrial Policy Resolution of the Government of India was formulated. It set out two separate lists for the state and private sectors, and a concurrent list for both.

Further development of the principal basic industries such as iron and steel, coal-mining, shipbuilding, manufacture of aircraft, manufacture of telephone, telegraph and wireless apparatus, etc., was made a responsibility of the state. Exclusive state preserve would be in railway transport as also in arms and ammunition and atomic energy. The rest of the industrial field was left open for private entrepreneurship to function. But it was clearly envisaged that in the case of certain industries of key or national importance, the state was free to step in and take over charge from private enterprise whenever the latter would fall short of the expected standard of efficiency.

It would appear that the latest concept of the state working as a catalytic agent for generating industrial development was in a way buttressed in the policy statement. In the 1948 resolution itself an increasingly active assignment was accorded to the public sector. There was an explicit emphasis in the resolution on state responsibility in the matter of 'promoting, assisting and regulating the development of industry in the national interest.' An Industries (Development and Regulation) Act was passed in 1951. It prepared a schedule of as many as thirty-seven industries from out of the three lists, and brought them under the purview of the Act. The more important clauses of the Act may briefly be referred to here. First, it provided for registration of the existing units in the scheduled industries. Secondly, a licence from the central government was made essential for a new establishment to

start. Thirdly, if there be an unjustifiable fall in output or quality or a soaring up of prices, it would be open to the government to arrange an investigation into the industry concerned. Finally, if any industry would default in carrying out government instructions pursuant to such investigation, the government should be eligible to take over control.

In order to establish the necessary liaison between different interests in the industrial field, a Central Advisory Council "representing owners, employees, consumers and certain other classes including primary producers" was set up under the provisions of the Act. More important in the business of establishing this liaison and of exercising a vigilance over the private sector was the inauguration of the development councils set up with a view to recommending targets of production and co-ordinating production programmes, suggesting norms of efficiency and promoting or undertaking works of research and statistics. The development councils have come to stay as an integral part of the state machinery for exercising the necessary watch over industrial entrepreneurship in both public and private sectors.

The revised Industrial Policy promulgated on April 30, 1966, clearly widened the orbit of the state sector in industry, promising simultaneously the private sector 'as much freedom as is consistent with the targets and objectives of the National Plan'. In the case of an industry where both state and private interests exist, there would, however, be no discriminatory treatment between the two.

The monopoly of the state in arms and ammunition, atomic energy, railway and air transport remained. A rather flexible approach was however manifest in respect of the rest of the industrial field. The policy emphasized that the listing of industries into three schedules did not make out a case for creating watertight compartments. An area of overlapping as also a great deal of dovetailing between industries in the two sectors were therefore accepted.

A Salient Feature

A salient feature of the revised state policy was that although the state had been given rigid monopoly in respect of further developments in industries listed for exclusive state preserve, no tampering with the already approved or existing private units in these industries was contemplated. Secondly, it was envisaged that it would be permissible for the state to emerge as a competitor or sole producer even in respect of any industry allotted to the private sector. On the other hand, the state might also permit private enterprise to operate in an industry listed for exclusive state preserve. These provisions undoubtedly underlined the clear emphasis that the revised policy lay on the importance of co-existence and co-operative development of the public and private sectors.

The revised industrial policy had not prejudiced the private sector. While the 'guarantee of safety' given to foreign capital in the Prime Minister's statement in Parliament on April 6, 1949, was not affected in any way, the new policy and the five-year Plans provided scope for a greater amount of annual investment than had hitherto been possible. Besides, the schedule for exclusive state preserve did not affect the existing industrial units in the private sector. Finally, though the revised policy made a revision in the distribution of industries and took away some of the industries from the private schedule to the state schedule, the total investment opportunity and extent of industrial entrepreneurship available to the private sector was not shortened.

The state policy on industrial development reflects the most important economic ideology of the state. While in the USA private entrepreneurship holds almost the entire ground, it is the state that does so in the USSR. Mixed economy, however, has been given a fair trial in the UK, with results that have not been unsatisfactory. India now claims to be professing socialistic mixed economy, and the 1956 industrial policy was framed in that light.

The 1956 industrial policy really turned the corner in the evolution of principles that should govern industrial development in the country. The policy in fact presaged a whole range of new concepts that were then emerging. The absence of such concepts, in the plans and policies prior to the five-year plans, were commented upon by economists in India and abroad. The latest theories of development economics (the relative priorities between deployment of capital and labour, population explosion, disguised and sectoral unemployment, deficit finance and price spiral) gradually came to be reckoned within the formulation of our industrial policy and the five-year plans.

Over the five-year plan periods, the basic state policy of industrial development continued to be guided by the Industrial Policy Resolution of 1956.(7) While this was so, during the formulation of the five-year plans and their implementation, certain major economic principles were evolved. Even though they were within the peripheral outline determined by the 1956 resolution, they were clearly concepts of new dimensions, attuned not only to the particular requirements of the Indian economy but also by and large in keeping with latest economic thoughts.

Stock-Taking

In many quarters, the first five-year Plan has been described as a plan for stock-taking and rehabilitation of the economy particularly in the agricultural sector. In the core of the second and third five-year Plans however a new approach on development was clearly in evidence. These plans gave high priority to the growth of heavy industries highlighted by an emphasis on steel. This approach postulated two economic issues. First was the question of relative priority between capital and labour intensity in the deployment of resources and secondly a new motivation towards foreign capital investment.

The heavy industries being capital-intensive would give relatively little scope of employment and would also generate a large demand for consumer goods which they themselves would not be able to supply.(8) Capital intensity of heavy industries will not considerably expand the employment base. In the second place, there is a long time-lag, the period of gestation, between the investment in capital goods industries and the increase in the production of consumer goods. In immediate future therefore, less capital thus becomes available to the consumer goods industries. There is another point to take note of. Establishment of heavy industries would increase income and release additional purchasing power. The demand for consumer goods would go up. Capital being not plenty, how this demand is to be met? Obviously, by methods which do not call for heavy capital outlay i.e. by methods which are labour-intensive. A simultaneous emphasis was therefore laid in the second and third Plans on small-scale and medium industries. This will provide an immediate fillip for the enlargement of the employment base. The two problems posed were inter-related and were said to be the basic strategy of the two plans. Weighing the carefully worked balances, the two plans did lean in favour of labour intensity, particularly in other than heavy industries.

The relative weightage to be given to the two concepts of labour intensity and capital intensity however continued to remain a little nebulous. It was necessary for the economy to have an expansion of both heavy, and therefore capital-intensive, industries as also small and medium scale, possibly labour-intensive industries. Somewhere, therefore, a balance had to

be struck. The relativity of weightage continued however to be uncertain over the first three plan periods. As is seen from the Approach to the Fourth Five-Year Plan, however, a balance appears to have at last been struck. It has been said that the programme of industrialisation during the fourth Plan should (i) provide for the industrial and technological capacity and competence needed for self-reliant industrial progress continuously, (ii) develop capacities in directions appropriate to the export performance and import limitation indicated in the Plan by the balance of payments situation, and (iii) organise capital and personnel resources in such a way as to achieve as widespread an industrialisation of the country as possible.(9) Productivity and profitability of both public and private sector enterprises have been given urgent consideration in the 'Approach' paper. Even then it has been voiced in certain quarters that the correct bifurcation between capital intensity and labour intensity in the deployment of resources has not been clearly shed even in the fourth five-year Plan, as certain areas of investment allocation are not yet objective and as a practical assessment of the resources availability has not preceded the framing of the revised fourth five-year Plan.(10)

Foreign Investment Motivation

Another important concept getting increasing attention is the motivation towards foreign investment. All too often, industry is wanted primarily for nationalistic reasons—all to show that a country is 'modern' and that it need not depend on others for the goods it wants. Such thinking leads to a number of unsound prestige projects. National pride frequently, with its roots in memories of colonial exploitation, tends to erect emotional and legal barriers to the entry of foreign capital and know-how, even when it may be obvious on purely economic grounds that the borrowed capital and technology have a necessary role to play, particularly in the first few phases of development.

These two factors had played an important but controversial role in our economic thoughts and in the formulation of our economic policies ever since the first five-year Plan was launched. It was in this context that the historic Nehru Resolution on foreign investment was announced in the Parliament. India however has lived through with enough participation in foreign capital and expertise in her industrial development during the first three plan periods. While their role continues to remain important in certain sectors, the question is rightly being voiced as to whether a stage has now been reached when the country could possibly do without the assistance of substantial foreign capital and expertise.

Shifts in Emphasis

In the context of industrial development witnessed during the three plan periods, economic concepts of population explosion and control, disguised and sectoral unemployment, deficit financing and price spiral have also been constantly discussed. While these ideas have been practised within the framework of our objectives and availability of resources, the overall approach has more or less been attuned to the particular needs of the hour. There have therefore been frequent shifts in emphasis depending on the interplay of the variables in the economic standard.

The foundation for continued industrial development has been laid by the infrastructure of Indian economy built up by huge investments under the five-year plans during the first fifteen years or so. The state policy on industrial development, in the context of the declared objectives of our economic activities, will continue to monitor the overall development in the country. At the same time, the climate for industrialisation has radically changed in most of the developing economies. Today, the attitude of the state towards private industrial development and towards foreign investment in industry has become favourable, while the suitabilities and limitations of state entrepreneurship have become more apparent. The advantages of the mixed economy, as also the complementary role of private and public sectors in industrial development, have been increasingly recognised of late: this therefore should determine the pattern

of development of the national economy in India in the next few decades.

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Company Donations to Political Parties

PROF. R. K. AMIN, MP

THE QUESTION whether or not companies should be allowed to contribute to the funds of political parties has been attracting public attention since 1956. The Tatas raised it for the first time and the High Courts of Bombay, Calcutta and Madras were divided on this issue in their judgments delivered during the year 1956 and 1957. The political opinion in the country has also been sharply divided. While the opposition parties, without exception, have been in favour of imposing a ban on company donations, the Congress Party alone till later was in favour of companies contributing to the funds of political parties. So long as the Congress Party was unanimous on this issue, the controversy remained just as a sterile debate; it had only an academic interest.

The controversy assumed an acute form when in 1967, the Minister of Industrial Development and Company Affairs, gave an assurance in Parliament that the government proposed to bring a bill banning donations to political parties by way of an amendment to the Companies Act. In fact, during the fifth session of the fourth Lok Sabha, with the permission of the cabinet, the draft of such an amendment was published. There cannot be now any willy-nillyness in opinion: one has to say either 'yes' or 'no'.

The issue has really created problems for two political parties—the Congress and the Swatantra parties. In the other political parties, there is no stir at all because they did not have, and in fact need not have, any other opinion except in favour of banning donations; so far, none of them has ever received any donations from companies and none of them could conceivably have any hope of getting funds except when they are in power. But in that case, whether there is a ban or not, it would not matter.

Complicated Question

The question therefore remains complicated only for the Congress and the Swatantra parties for certain historical developments. Before 1960 the Congress Party alone used to receive such funds. It was therefore thought by the other parties that possibly the same situation would continue in the future in view of the increasing role of the state in economic matters. The party in power, it was felt, could attract company donations as it could conveniently throw 'crumbs' to the business community.

The Swatantra Party initiated the idea of such a ban. As early as 1957, Mr C. Rajagopalachari suggested that political parties should obtain their funds neither from companies nor from the public. In 1959-60, the Swatantra Party asked for a ban, and one of its members brought a private member's bill in the Lok Sabha to this effect in 1965.

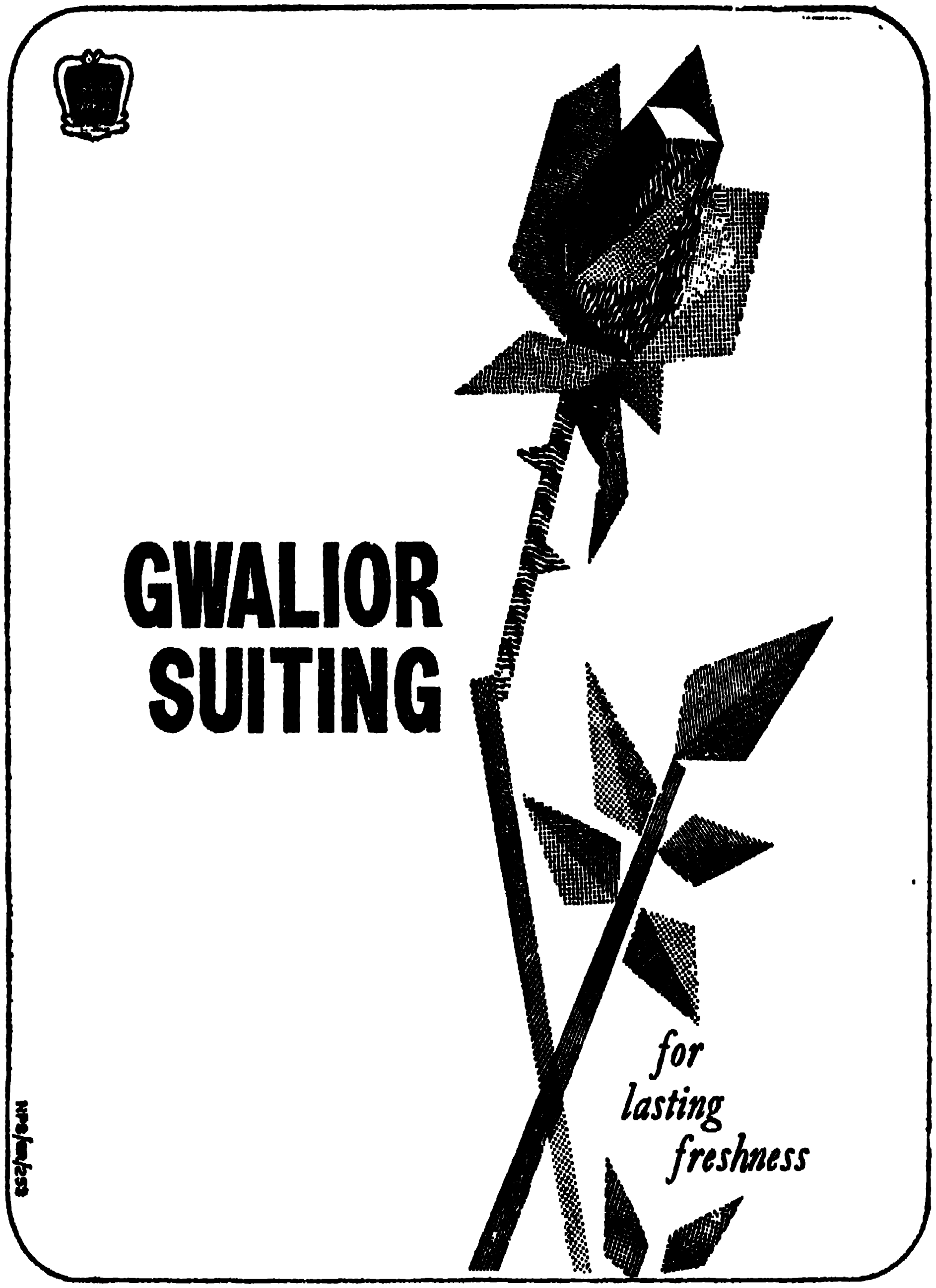
How is it that the Swatantra Party, which can hope to receive funds from companies, joined in the chorus of the opposition parties for baning company donations? Possibly, during 1959-60 when the Swatantra Party initiated this move, there might have been various considerations at the back of the mind of its leaders. For example, they might have thought that the position of Congress at the times of election could be weakened only if it was deprived of financial resources; only then there could be some chance of throwing it out of power. Although the business community is sympathetic towards the Swatantra Party, it might have been felt that it would not dare give help so openly; it would help only indirectly and that help would come in any case. Possibly also, the Swatantra Party leaders might not have thought then that foreign moneys on such a large scale would be available to political parties. Perhaps, they might have thought that Congress stuck to its economic policy because it could have political patronage; if on account of such a ban, they could not use political patronage to obtain finances, they could be easily persuaded to give up a statist policy the moment the evils of this policy were revealed to them. Some such considerations must have induced the Swatantra Party leaders to initiate a move for a ban on company donations to political parties before 1960.

Later on, in 1962 and especially in 1967, along with Congress, the Swatantra Party also received donations. In 1967 in Bombay the proportion of donations between Congress and Swatantra was almost 50:50. In the country as a whole, it may well have been 90:10 in 1962 and 70:30 in 1967.

It is also suspected that foreign moneys played a significant role in 1967 elections—the socialist parties now obtaining good amount of funds from the trade unions. The Russian money comes to this country in a very surreptitious way and it is suspected that the US government is also in a position to spend a part of the PL 480 funds without the knowledge of the Government of India, although whether the US government has done so or not is not known at all. The volume of "black money" or unrecorded money assumed a spectacular size which was not expected in 1959-60, when the Swatantra Party started the campaign against company donations to which all other opposition parties joined later on.

Let us examine what exactly is the thinking both in the Congress and the Swatantra parties in this regard at present. What arguments do they put forth for and against this issue?

The main arguments by the Congress spokesmen in favour of company donations are: (a) the Congress puts itself into a disadvantageous position by banning such donations because no other political party could ever hope to obtain as much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money from this source as it can obtain; (b) it is becoming difficult to contest elections without financial resources. Now-a-days it is difficult to approach small men for small contributions because the emotional appeal, which alone could help in obtaining huge funds, could not be made in the present circumstances. Therefore there is no alternative source for obtaining adequate funds; (c) It is also being suggested that such a ban would encourage underhand methods of obtaining funds which would bring undesirable elements in our political life. It would also unnecessarily enhance the power of financial bosses in the party; and (d) it would put the communist parties, which are alleged to be depending on either the trade union funds or foreign money, in a relatively more favourable position in regard to finances vis-a-vis other political parties. Therefore, the Congress Party on its own should not give up its advantageous position especially when it faces a critical situation at present.

Those in the Congress Party who are in favour of such a ban do so on the ground that no one gives money without a motive. If the Congress Party depends for money on big business groups, it cannot adopt its really socialist policies and it will have to accede to the demands of the big business groups. It is also wrong, they contend, that the Board of Directors should be allowed to give away money which to some extent belongs to the state and in a larger measure to shareholders. In some companies where foreign interests are important money really belongs to foreigners. If shareholders' money is to be given away it is proper that the shareholders should decide, not the company directors. If such donations also involve the share of foreign investors, the foreign influence is likely to creep in indirectly; if these donations are at the cost of state revenues since exemption to some extent in taxation is granted, then it is the public money which is being used. And therefore company donations are to be banned.

Some members of the Congress Party believed that if donations are banned, the party will be compelled to seek its support from the masses and therefore will have to cater to the needs of the masses. They also think that the alternative to communism today is the Congress or the Swatantra Party. The banning of such donations, would harm, to some extent, the Congress Party but would almost finish the Swatantra Party and in that case those who oppose communism will have to support Congress whether they like it or not, because that would be the only alternative available to them. Thus the Congress Party is likely to emerge more powerful despite some adverse effects on its financial resources by such a ban.

Sharp Division

Thus it is clear that various considerations of immediate importance have sharply divided the Congress Party. At the same time, the Swatantra Party although not facing as complex a situation as the Congress Party, is still in a difficult position. It claims to be a party with a difference; it stands for its educative value in the political life of India. It is a party which initiated this idea although it faces today a somewhat altered situation in regard to company donations. Politically it considers the communist threat greater today than in 1959-60. If at this stage, because of significant changes in the basic assumptions of the party line, it begins to shift its position, it is likely to be accused as an opportunist party.

At the same time, the Swatantra Party has one big convenience still. It knows pretty well that its opinion one way or the other will not decide the issue because the Congress Party still holds the majority in Parliament. If the Congress Party decides to ban donations, it would come even if the Swatantra Party is against such a ban If the Congress Party does not want it, then the Bill will be dropped and as before, it can stick to its earlier stand without incurring any financial loss. It means that at this juncture 'to keep quiet' seems to be the best policy for the Congress Party, although there is some searching of hearts and also the realisation of the Congress Party's folly regarding its earlier stand.

How are we to arrive at a decision in this regard? What factors should be taken into account—while deciding this issue—by an ordinary citizen of this country who is wedded to democracy as a way of life which he is keen to preserve in this country?

The relevant issue while considering this matter is: What should be the right policy if we set apart the immediate considerations which may not be of a lasting character? In that case the view is clear enough. The company donations should not be banned. At any rate, the Swatantra Party and for that matter any democratic party cannot support the banning of company donations. Rajaji's view that political parties should not receive funds from companies or even from individuals cannot hold the test of Swatantra philosophy.

Swatantra Philosophy

In fact, the preservation and promotion of freedom or liberty is the very basis of Swatantra philosophy and such a freedom includes the freedom to use one's own resources, including financial resources, to influence the social and political philosophy which one would like to favour. In an open society, one should be free to spend one's own money to advocate socialism or capitalism. Almost all radical movements all over the world have been financed by one or the other capitalist. It is also pretty clear that in most of these cases, one or two big financiers have always made signficant contributions.

It is thus safe to conclude that almost all democratic parties would support the view that individuals should be free to donate money to political parties; they would not object to donations from companies to political parties if there was a prior sanction of the shareholders. Without financial resources, how can one imagine to have one strong opposition party (as required in any democratic set-up) to oppose the Congress Party—the ruling party—at all places? To put up candidates against the Congress at all places, we would need—according to expenses allowed at present—Rs 81,000 for one Lok Sabha constituency (Rs 25,000 for a Lok Sabha candidate and Rs 56,000 for candidates of Assembly constituencies) and therefore about Rs 7.5 crores for any general election. And when it is considered that this much money is to be spent in three weeks, while the actual campaign lasts for two to three months, the total expenses of any all-India party would be well beyond Rs 10-15 crores. If the parties consider it necessary for candidates to spend money, then only those people who can spend money or who will like to recover more than the sum spent, would dare ask for party tickets. In that case, there will not be equal opportunity to all men with small means and ultimately more evils than what we find today would creep in our political life. Remedy in that case will be worse than the disease.

If, then, parties need financial resources, and if individuals should be free to donate them, the hair-splitting in this regard that such donations should be restricted to a party's normal needs or should not be for elections or the companies should be allowed to donate with the prior sanction of shareholders, seems to be meaningless. One can argue that companies are separate legal entities in our country and the board of directors is the keeper of the conscience of that legal entity. Every company pays taxes as company, not taxes on behalf of shareholders. Therefore, if companies are legal entities, then as such they can donate money without referring the matter to the shareholders. The day when, in our country, corporation taxes are abolished, and all profits are distributed to share-

holders in proportion to their holding of shares, then, the donations to political parties also should be collected from shareholders and not from companies. Just as in the political sphere, we select the parties on the basis of the totality of their policies, similarly, the choice of a party for donation made by the board of directors may not be approved by some shareholders, yet, they may vote in favour of the same Board of directros since their other policies are largely acceptable to them.

Basically then, companies and individuals should be free to donate funds to political parties they like. To minimise the excesses as well as the abuses of this freedom, the government can circumvent the policy by way of several restrictions such as the amount of money which can be donated with or without exemption of taxes.

What is likely to be the attitude of the Swatantra as well as the Congress parties if they take immediate considerations into account? The ban on donations will certainly hit the Swatantra Party hard while the Congress Party will have some advantages, although as compared to communists both of them will be put into an unfavourable position.

Foreigners' Interest

The foreigners, and especially the western bloc, are not likely to help the Swatantra Party since they are more businesslike. They would like to have good returns for their investment. The Swatantra Party being already dedicated to freedom, capitalism and democracy, they do not want to spend money to influence their thinking while the Congress Party is sitting on the fence; it is walking on the razor's edge. A small financial help will tilt the scale in their favour. The big business and the USA will have this consideration at the back of their minds and they will ignore the Swatantra Party and its members.

We can very well ask: would the big capitalists or the western democracies especially the USA allow the Swatantra Party to die—although it is a party which stands for a system in which they at least survive? Surely, they would not allow it to starve and die—but would give only bare subsistence by way of help. By and large, the philosophy held by the Swatantra Party is not acceptable to big business groups. It is acceptable to traders and small manufacturers; it is acceptable to those who work in the field and who constitute the real masses; but their capacity to support a party is very limited. Possibly a few individuals of the Swatantra Party may be helped but not the party as such except for its bare survival.

For the Congress Party, the position is somewhat different. Big businessmen do stand for deficit financing, and the public sector which acts as a supplement to the private sector; they also envisage a corrupt public sector and like controls so that their monopolies can be established, licences can be obtained, insulated economy can be set up to encourage domestic industries and trade. Since it is also a party in power, it is convenient for them to help and as this party is in the middle of the road, it can be held back from falling on socialistic policies. The western democracies as well as big business would help Congress despite a ban on company donations.

Some undesirable elements may also come in our political life if the ban is imposed. Then the donors of black money can open their coffers only to one or two confidential men. In that case there will be bossism of rich members in the party; the electorate may also be spoiled and many "yes-men" of big business group would enter Parliament with the result that it would become the haunt of vested interests.

It is true that the state should try to reduce election expenses; it should also try to reduce the scope for corruption. The entire procedure of election expenses should also be simplified and the curtain of secrecy should be removed from the activities of various political parties. If that is done, possibly the evil part that money plays in political life will be minimised and the representation of the electorates will be very near to their true choice. As at present, companies may be allowed to donate but the fact of such donations should be widely known not only to the shareholders but also to the general public. If these precautions are taken, evils of company donations can be minimised.

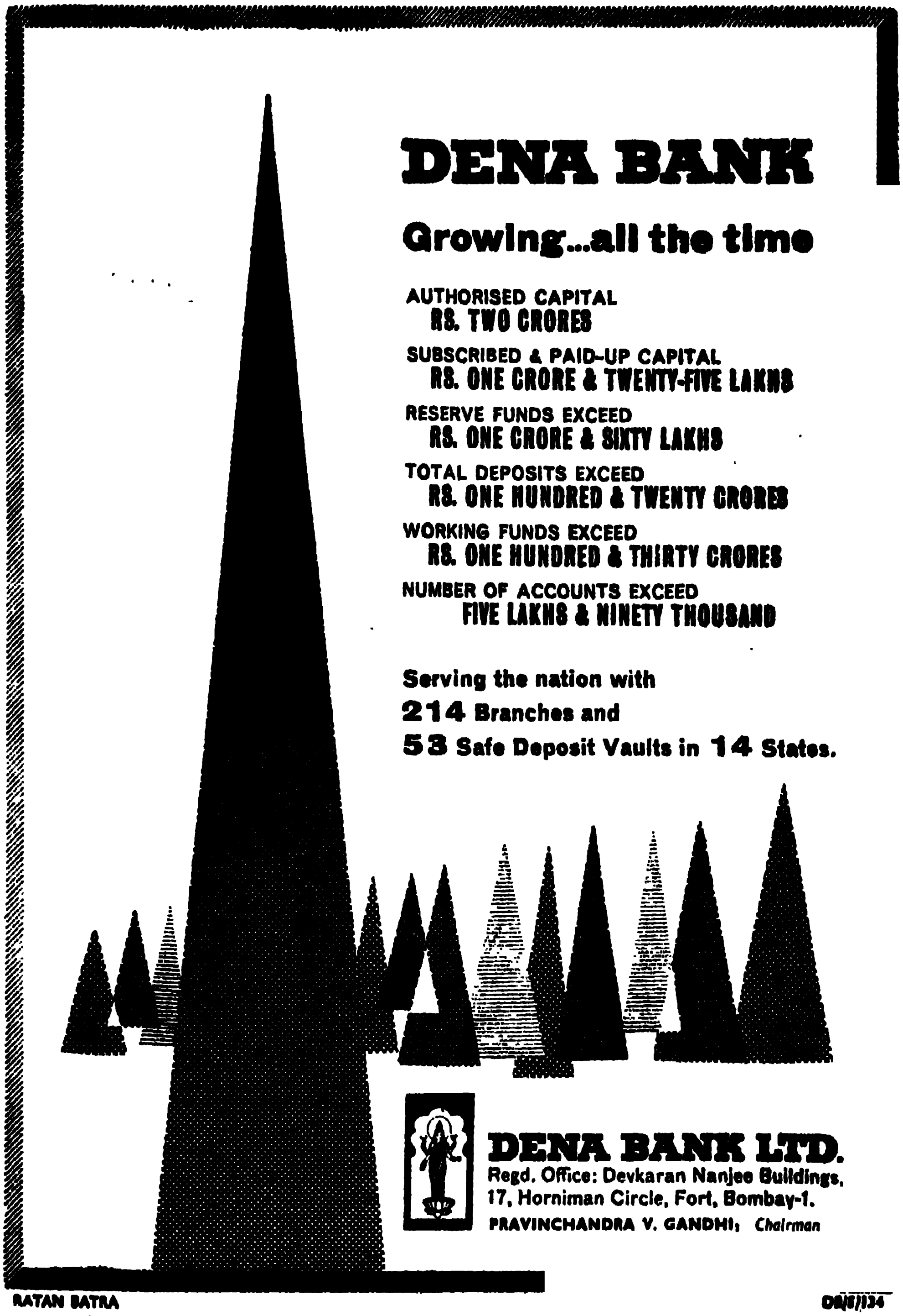
Split on Rhodesia

DR. A. APPADORAI

THE COMMONWEALTH Prime Ministers' Conference, held in London from January 7 to 15, was attended by representatives, in most cases heads of governments, from 28 countries located in all the continents; they came to exchange ideas on world political and economic issues, not to arrive at decisions. The decisions on policy are the concern of the governments concerned not all of whom represent the same racial stock. They come from countries which are at different stages of economic development; some of them such as Canada and New Zealand are affluent societies; others such as Zambia can be described as under-developed; India occupies a middle place in economic development. There is no fixed periodicity for the holding of the conference. In 1965-66, there were three meetings while in the period 1957-60 there were only two. The conference this month was held after about 28 months. It has usually been held in London; the 1966 conference was held in Lagos, and Ottawa was considered as the venue for the present conference but was given up only because of Mr Lester Pearson's resignation. The candidates likely to succeed him did not commit themselves to Ottawa as a possible venue. The conference is not open to the public and no proceedings are published, though a communique is usually issued at the end of each conference embodying the consensus of the participating members on the problems discussed.

It is a convention that bilateral issues touching members of the Commonfealth are not discussed at the conference. Attempts were made more than once, for instance, to bring in the Kashmir question at these conferences but every time the attempt has been scotched by the good sense of the members. It is the same convention which governed Britain's unwillingness to permit a discussion of its immigration policy at the formal sessions of the conference, as it holds, rightly, that it is a matter within its domestic jurisdiction. This does not mean that bilateral issues are not discussed at all at London. Informal discussions do take place on such issues outside the conference. For instance, there were private conversations in 1951 in London at the time of the Commonwealth conference among Nehru, Menzies, Attlee and Liaquat Ali Khan at which the idea of a limited plebiscite in Kashmir was discussed. During the present conference also, the question of the entry of Asians in Kenya—holding British passports—into Britain was discussed by Mrs Indira Gandhi with those concerned, though outside the conference sessions.

This association of 28 states is unique because it does not curtail the sovereignty of its member states in any way, each member being free to follow its own domestic and foreign policies. Its member nations do not follow a common form of government. The connecting link between members of the Commonwealth is "acceptance of the Queen as the symbol of the free association of its independent member nations and as



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such the Head of the Commonwealth"—a phrase evolved in April 1949 when India's desire to continue its membership in the Commonwealth was agreed to by the other seven members of the Commonwealth. Consultation is the watchword of the Commonwealth which is normally followed except when the British attacked Suez in 1956. No member state was consulted then and such non-consultation was considered a violation of the orm.

The symbolic connecting link and the normal practice of consultation apart, the question is often asked: what connects the members of the Commonwealth together? As a distinguished Canadian leader put it, though there is nothing tangible holding the Commonwealth together, there are shared ideals and philosophic concepts. "These include a regard for fundamental human rights; a belief in racial and religious equality; the rejection of intolerance; an appreciation of the value of the human being; the belief in the higher destiny of mankind; the recognition that many roads lead to the same destination and that each should be free to choose his own route; the mutual acceptance of the right to differ; the readiness to respect and understand points of view which conflict with one's own interests". To this consensus on values we may add a recognition of the importance of the work achieved at specialised Commonwealth conferences such as the conference on health at Kampala, on education at Lagos, on aid and planning at Nairobi, and of others such as the Telecommunication Council, the Commonwealth Parliamentary Association, and the associations of Auditors General, the Finance Ministers, the Forestry Officials and the Commonwealth Foundation.

We have already referred to the acceptance by the conference in 1949 of India's membership even after it expressed its intention to become a republic; ten other republics were accepted by the conference as members after 1949. It is significant that as a result of the discussions in the Prime Ministers' Conference in March 1961, the South African Prime Minister decided to withdraw his application for South Africa's continuing membership of the Commonwealth after it became a republic on May 31, 1961. He discovered that it was the consensus at the Prime Ministers' meeting that the racial policy followed by South Africa and the membership of the Commonwealth did not go together.

True to Form

The agenda for the conference was true to form in respect of three items: a review of the world situation, a review of economic affairs and Commonwealth co-operation. The fourth item, which has naturally (considering the composition of the conference consisting as it does of a large number of Asian-African members) struck the headlines is the question of Rhodesia.

The significant developments in the world since the conference met in September 1966 came in for review, the participants naturally looking at them from the point of view of the national interest of the countries they represented. Authoritative press reports of these discussions indicated that Australia took the view that any settlement of the Vietnam war should be just and durable and give the South Vietnamese the right to choose their government by free elections; India's emphasis was on the withdrawal of foreign troops and leaving the future of Vietnam to decision by its people. Malaysia, like India, was critical of the Chinese expansionist policies in south-east Asia; communist activities in south-east Asia had convinced Malaysia that China was attempting to dominate or influence the area by means fair or foul; Pakistan thought differently. Czechoslovakia and west Asia inevitably figured in the review. It means that this review of world affairs by the Commonwealth statesmen is more or less a routine affair and adds little to our knowledge of the position of the Commonwealth countries in respect of world developments.

But the discussion on Rhodesia was more than routine; a great deal of effort was made especially by the African countries to place the problem in proper perspective. The central issue is: Rhodesia has a small white minority and a large African majority. Is Britain going to be a party to the legal transfer of power from Britain to Rhodesia until the principle of African majority rule is accepted and implemented? President Julius Nyerere of Tanzania used the expressive term NIBMAR—no independence before African majority rule—to express the consensus of the bulk of the members of the conference; reports at the time of writing indicate that barring Britain, Australia, New Zealand, Lesotho and Malawi, the rest of the Commonwealth members would like to have this principle reaffirmed and implemented. Britain was reminded that in September 1966, she had agreed to the principle; why then attempts at compromise as was indicated in the concessions made on board "the Fearless"? The British position can be stated thus: she stands by the pledge she gave in 1966 but since the use of force had to be ruled out in the circumstances—kith cannot fight kith—negotiations had to be continued; the "Fearless" proposals provided guaranteed unimpeded progress to majority rule and, therefore, were not inconsistent with NIBMAR.

Effective Measures

Admitting that realism demanded that force could not be used by Britain to put down the rebellion of Ian Smith, could measures short of force such as economic sanctions be made more effective to achieve the object of NIBMAR? And, if the compromise proposals were to work, how could the transition be guaranteed to move to African majority rule? In both these, opinions necessarily differ.

Authoritative reports from London indicate that the differences of opinion are unlikely to break the Commonwealth; member states are too conscious of its general utility to allow the differences of opinion to reach the breaking point. It is also interesting that Canada has sided with the African states, while Malawi supports the British position indicating that the discussion was not on purely racial lines.

And one final point. It is time that the Commonwealth statesmen considered whether or not it would be conducive to the stability of the Commonwealth if a declaration of common purposes were issued at one of these conferences. The late L. S. Amery, a former Secretary of State for India, suggested in October 1948 the issuing of such a declaration. The raison d'etre of the suggestion is that consultation, co-operation and mutual aid form the stuff on which the Commonwealth subsists. But for an organism to continue to exist and inspire, spiritual content is needed. His own view was that the principles of freedom, tolerance and justice might well form the nucleus of such a declaration. It is unlikely that the Commonwealth countries will consider such a declaration in the near future, but the suggestion is worth serious thought.

A Correction

In our issue dated January 10, 1969, on page 43 below 'Contents', the annual subscription of 'Eastern Economist' has by mistake been given as Rs 70 instead of **Rs 85.**

The annual subscription rates w.e.f. November 1, 1968, are as follows:

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Foreign: £7-0-0 or $17-00.

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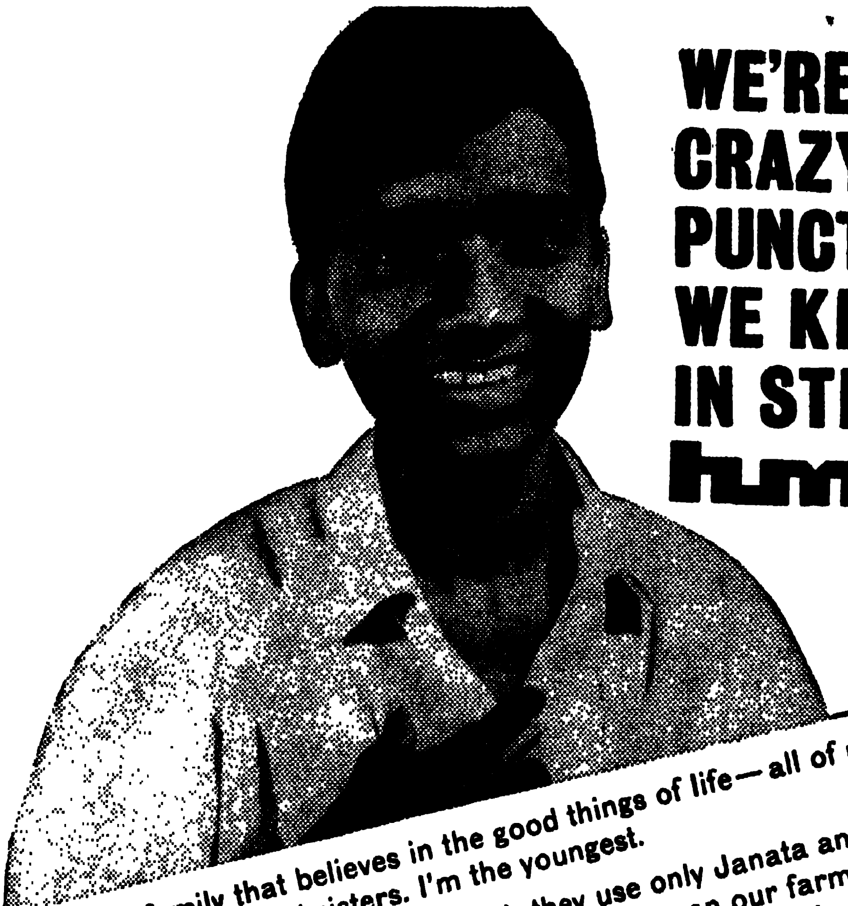

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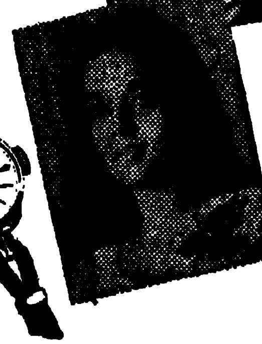

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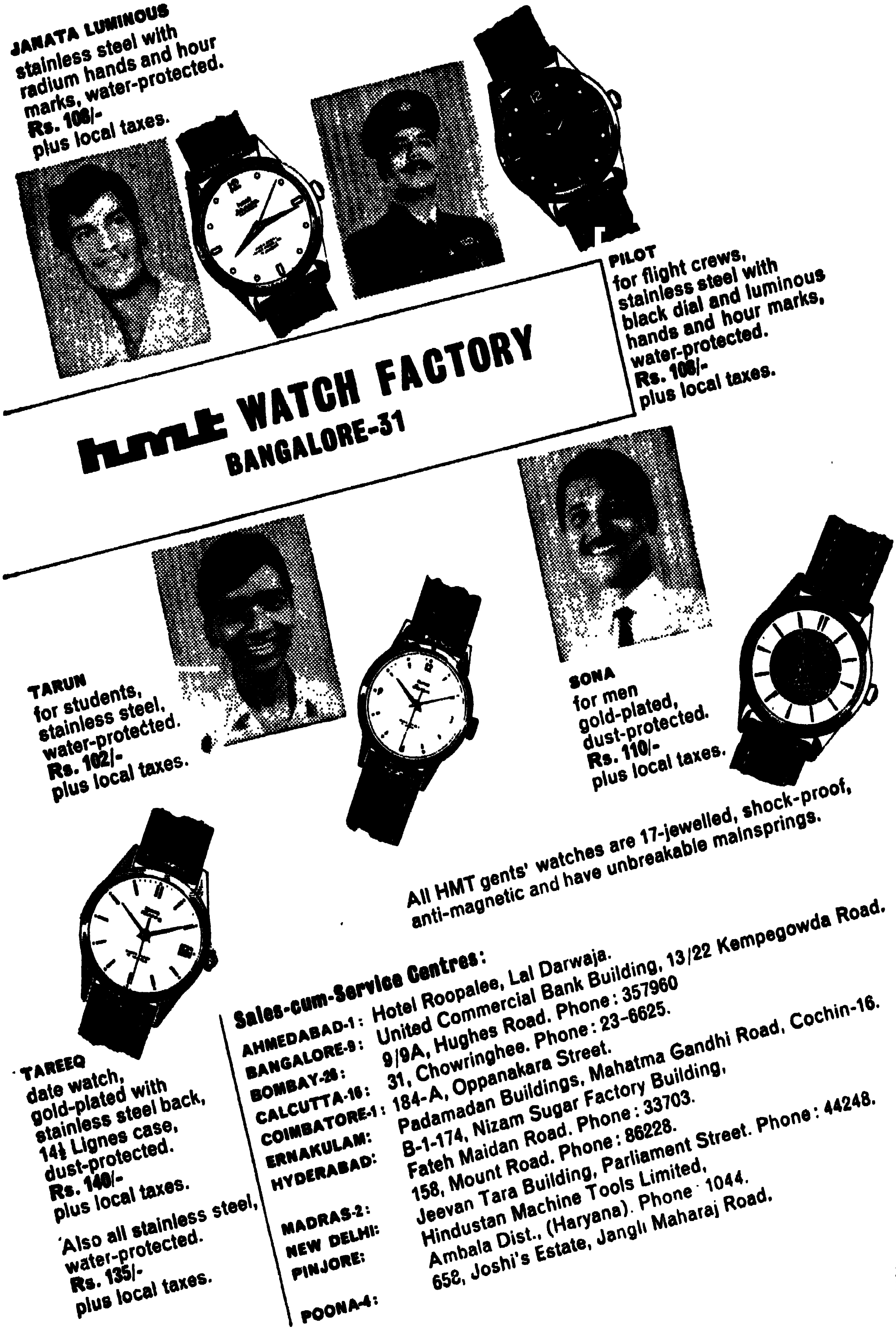
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plus local taxes.
Sales-cum-Service Centres:
AHMEDABAD-1: Hotel Roopalee, Lal Darwaja.
BANGALORE-9: United Commercial Bank Building, 13/22 Kempegowda Road.
BOMBAY-26: 9/9A, Hughes Road. Phone: 357960
CALCUTTA-16: 31, Chowringhee. Phone: 23-6625.
COIMBATORE-1: 184-A, Oppanakara Street.
ERNAKULAM: Padamadan Buildings, Mahatma Gandhi Road, Cochin-16.
HYDERABAD: B-1-174, Nizam Sugar Factory Building,
Fateh Maidan Road. Phone: 33703.
MADRAS-2: 158, Mount Road. Phone: 86228.
NEW DELHI: Jeevan Tara Building, Parliament Street. Phone: 44248.
PINJORE: Hindustan Machine Tools Limited,
Ambala Dist., (Haryana). Phone 1044.
POONA-4: 658, Joshi's Estate, Jangli Maharaj Road.

WINDOW ON THE WORLD

Prospects for Europe in 1969

JOSSLEYN HENNESSY

I
THE NOVEMBER CRISIS AND AFTER

LONDON:

THROUGHOUT 1968, contrary to earlier expectations, output and trade in the OECD countries as a whole continued to expand strongly. The GNP probably rose by more than five per cent in volume against 3.5 per cent in 1967. Unexpectedly strong (and unwanted!) demand in the USA and the UK generated expansionary forces in many other countries, although there was some slackening in Italy, and French output fell after the May strikes. Total OECD exports and imports rose by about 12 per cent against 5.5 per cent in 1967.

Before November's Deutschmark-franc-sterling crisis the prospect for 1969 in many ways looked good. Outside the USA, expansion seemed likely to remain rapid. Several countries were on the way to reaching better levels of employment and capacity utilisation with little risk of overheating although, for different reasons, rises in costs and prices were special problems in the UK and in France. In the USA a necessary and desirable slowdown was expected.

As against these favourable omens, the persistence of major imbalances in international payments was disturbing. The buoyancy of domestic demand in 1968 delayed improvement in the US and UK balance of payments. Both could look for real improvement in 1969 but the delay meant that it would not be as good as hoped. Equally important was the probability (that I predicted here on August 9) that a major imbalance between West Germany, France and Italy was in the offing. The dangers to the franc in 1968 had not been due to a weak current account balance, but I foresaw that this would develop in 1969 when Italy and West Germany would be running current surpluses almost as large as in 1968. It was (and still is) uncertain how far West Germany and Italy would be able to maintain the large capital exports that had helped to cause the favourable swing in the USA's 1968 capital account. The delay in the strengthening of the UK's balance was keeping international traders nervous about sterling, and their worries were increased by their distrust of the franc. In the event, the crisis which I feared for 1969 boiled up last November . Although the dollar was not directly at risk, defensive speculation was probably intensified by the short interval between the November DM-franc-sterling crisis and the March gold crisis. These two crises, taken together with France's May strikes, have left the world monetary system pretty battered and have, my spies inform me, raised the sale of sedatives among international traders.

Patchwork Measures

France, West Germany and the UK countered the November crisis by a patchwork of measures which are, of their very nature, temporary. West Germany introduced a four per cent subsidy on the c.i.f. value of imports and a four per cent tax on the f.o.b. value of exports until March 31, 1970. The subsidy, if fully passed on, would allow a 3.6 per cent fall in the landed price of imports, in which case it would offset the export tax on any import content of goods for export. The package amounts to a four per cent DM revaluation on merchandise trade (excluding goods covered by the EEC's agricultural arrangements). The short-run effects of small changes in a country's competitive position are difficult to assess but, if the 1961 DM revaluation is any guide, the 1968 measures may be small against the advantage that West German exporters obtained from their falling costs and prices in 1967-68. On the other hand, the 1968 measures are likely to moderate future pressures on the general West German price level.

All this means that West Germany is certain to maintain her international competitiveness with its embarrassing export surplus. This makes almost everybody (except me) hopping mad but, for the life of me, I can't see why West Germany should be compelled to inflate as fast as her laziest and most self-indulgent competitors. Inflation arises from excess of investment and/or consumption over current savings. If, like, the grasshopper in La Fontaine's fable, you choose to do nothing but sing all the hot weather, while the ant works and stores up food for the cold weather, you can hope that the ant will take pity on you and help you out for (perhaps) one or two winters, but it is understandable if in the third year the ant says "Do some working and saving for yourself for a change". If, as are the facts, the UK chooses to consume around 75 per cent of GNP and West Germany around 57 per cent, why praise the UK grasshoppers' failure to control the price level and to invest enough to keep GNP growing as a sign of international co-operation and blame the German ant for behaving anti-socially? Nor do the mass of the German ants suffer. Between 1953 and 1966 their real hourly wage rose 71 per cent compared with 33 per cent for the British grasshoppers. It's all beyond me.

Tightening Regulations

To return to the results of the November crisis: Prior to this, the UK's tightening of purchasing regulations was expected to reduce private consumption by 0.5 per cent. After the crisis, further measures were taken to effect another 0.5 per cent reduction. A surcharge of 10 per cent was placed on the duties of wine, beer, spirits, certain fuels, tobacco, and all rates of purchase tax. The clearing banks were asked to reduce lending in sterling to the domestic private sector, and to overseas borrowers, to 98 per cent of the November 1967 level by March, 1969. Fixed rate lending for exports and shipbuilding, included in the May ceiling, are excluded from the new ceiling. A deposit scheme was introduced for manufactured goods but not for food, raw materials, and oil. Importers are required to deposit 50 per cent of the value of such imports ranging over imports of some £2,800 million per annum or 40 per cent of current imports.

When international traders took fright in November and "assailed" the franc there was no serious pressure of domestic demand in France. It is fashionable to call these traders "speculators" or "gnomes". I would like someone to work out, if possible, the total of liquid non-assigned funds available in the world's free capital markets for purely speculative purposes. My guess is that they are such a minute percentage of the funds crossing frontiers that, of themselves, they would cause scarcely a ripple on exchange rates. The vast majority of available funds are earmarked for the export and import of goods and services. It is the most elementary, sensible, economically and socially justifiable precaution on the part of the owners of these funds to avoid being caught out by a devaluation or a revaluation. If I have a sizable proportion of my capital tied up in exporting motor cars in the highly competitive market of internationally traded goods, in which I am forced to cut my profit margin to the bone, an unforeseen fall in my receipts due to the devaluation of the currency in which I keep my accounts could jeopardise the future of my company. The same reasoning applies if I am an importer, except that I suddenly find my costs are X per

cent higher than I allowed. Who is to blame if traders caught in such dire circumstances curtail credit and protect themselves as much as they can, as fast as possible, by buying or selling in the forward exchange market? If they don't do this, they should retire from business and join the nearest charitable trust.

French output after the May strikes had recovered fairly quickly and was well above the end-1967 level, although employment had, however risen little, and price rises were gathering speed, but the government hoped to keep rises within the limits of their post-budget strategy. The balance on current account with non-franc countries was probably in manageable deficit. Gross gold and foreign exchange reserves, though diminished, still totalled some $4,300 million. Although some short-term debt to foreign central banks had been piled up, France still had access to considerable borrowing facilities from the International Monetary Fund and from foreign central banks. The chances were that by the end of 1969 capacity utilisation would not be much higher than the somewhat depressed level of late 1967.

In these circumstances, the franc could hardly be regarded as over-valued. Even on the basis of the modest expansion implied by the pre-November policies, the current balance of payments would probably have developed a substantial but not unmanageable deficit. A new wage negotiation was due in March, and the intervening increase of prices might have inspired big union claims. The uncertain factor, however, was the course of prices.

The French government's November anti-crisis measures to preserve the exchange rate involve three main strategies. Tightened budget and credit policies to compress domestic demand, partly through putting prices up against the consumer. At the same time, however, direct intervention to contain price rises is to be intensified, which looks to me having your cake and eating it. The external account has been strengthened by a shift in taxation to favour exports at the expense of domestic sales and imports, and by the reintroduction of the exchange control which was imposed in May and ended in September.

Some of France's measures (e.g., the restriction of tourist expenditure abroad—a restriction which should be fiercely combated as an infringement of personal liberty by every democrat in every democracy—not least in India—are contrary to international agreements. All this strikes me as hasty ad hoc efforts to patch up a leaking roof at the height of a monsoon. This applies equally to the UK.

II

BASIC TAX REFORM ESSENTIAL

Until France and the UK put through a series of basic reforms in the structure of their taxes in such a way as to encourage savings and discourage current consumption, they must expect to stagger from crisis to crisis.

The authorities of both countries would doubtless contend that my conviction that they must encourage saving and discourage current consumption is a glimpse of the obvious, but they recoil in horror when I add that their policies imply that saving can be encouraged by increasing taxes on consumption without simultaneously lowering taxes on money saved. At the present time if my income is Rs 10,000 a year and I save Rs 2,000, my income-tax is assessed on Rs 10,000 a year. Whereas, I submit, that as long as I keep the Rs 2,000 invested, and do not realise it, my tax assessment should be on an income of Rs 8,000 a year. Do I hear New Delhi joining London and Paris to assert that such a scheme is impractical? The short answer is that by a multitude of

O.E.C.D. BALANCE OF PAYMENTS WITH THE REST OF THE WORLD

1960-1967

($1,000 million)

	Average 1960-63				Average 1964-67			
	Balance on goods and services	Total capital and transfers	of which: official	Official settlements	Balance on goods and services	Total on goods and transfers	of which: official	Official settlements
Primary producers ...	5.5	—5.7	—4.1	—0.2	7.0	—7.6	—5.0	—0.6
Developed	1.1	—1.3	—	—0.2	2.4	—2.2	—	0.2
Less developed ...	4.4	—4.4	—4.1	—	4.6	—5.3	—5.0	—0.7
Sino-Soviet	0.5	—0.5	—0.1	—	0.6	—0.6	—0.1	—
Total (a)	5.8	—5.7	—4.7	0.1	8.1	—8.5	—5.3	—0.4

(a) Including international institutions and unallocated.

Note: Conceptually the OECD's balance of payments with the rest of the world can be obtained by two methods. One consolidates the balance of payments returns of member countries on the hypothesis that all transactions within the area net out to zero. The other takes as a starting point the regional balance of payments statements submitted to the OECD. In theory the two methods should arrive at the same result but in practice they do not because of inconsistent recording. A number of tentative adjustments have therefore to be made to the basic data in order to obtain a better approximation. The results should be regarded only as rough orders of magnitude.

Source: OECD 'Economic Outlook', December 1968.

variations (applying to different kinds of savings) of this system, West Germany keeps current consumption down to 57 per cent of GNP and provides a basic factor in maintaining the envied stability of the Deutschmark.

What emerges from the November currency crisis is that France, the UK, and West Germany have reduced their payments imbalances for 1969, but they have lowered the fever without attacking the disease. They have all three adopted taxes and other devices directly to influence trade and they have further restricted the freedom of capital movements. In other words, while professing their fervent desire to play the game, they have broken some of the most important rules which allow it to be played. It is, however, encouraging that, despite the upheavals of the past twelve months, they have at least allowed the dismantling of tariffs to go ahead according to plan.

What of the prospects of other OECD countries and of the OECD as a whole?

The forecasts offered in the OECD's latest quarterly "Economic Outlook" are, of course, liable to be affected by further policy changes, but on present policies they seem to offer a reasonable assessment of prospects.

Despite the strength of current indicators, the pace of expansion should slacken in the USA and the OECD believes that, given the strength of the inflationary pressures which have now built up, monetary restraint and the maintenance of at least the present degree of budgetary restraint are needed. In France, demand is likely to increase less than capacity, with a rise in unemployment to an extent which depends on how long it proves necessary to maintain the present restrictive policies. Domestic demand should also rise only slowly in the UK, leaving room for the long awaited improvement in the external balance. I hope that the OECD is right in this, but one must not forget that the postwar years of creeping inflation have built up a backlog of disposable liquidity which enables consumers to defeat the higher taxes imposed by hopeful chancellors.

In almost all other OECD countries the outlook is for a satisfactory rate of expansion. In West Germany, the OECD considers that some easing of demand management policies may be needed to compensate for the reduction in the external surplus. In Italy rapid expansion will still leave a large margin of unused resources—lucky Italy!

In all, the total GNP of the twenty member countries of the OECD should rise by about four per cent in 1969 compared with more than five per cent in 1968 and 3.5 per cent in 1967. This should lead to a significant, but by no means disastrous, deceleration in the growth of world trade. The OECD exports and imports might both rise by eight per cent in value compared with 12 per cent in 1968. A number of the primary producing countries could run into financial difficulties. Exports to non-OECD countries may slow down markedly in the course of 1969. You, in India, will know better than I how far this applies to you.

III

INTERNATIONAL CO-OPERATION WANTED

The measures taken in November should substantially improve France's balance of payments, strengthen that of the UK, and reduce West Germany's current surplus. But large imbalances in international payments will remain and the OECD regards it as essential that maximum progress should be made in 1969 towards better balance. Progress needs to be made simultaneously by all the major countries suffering

from imbalance, because independent action by one country affects the others, not necessarily helpfully. Thus, West Germany's recent measures, by themselves, will help France to strengthen her position but they will also increase Italy's large current surplus. Action by the USA to improve its external balance will help to reduce West German and Italian surpluses but, unless West Germany and Italy take simultaneous action, their policies will make the task of France and the UK that much harder.

The OECD emphasises that whatever the method of adjustment, a deficit cannot be reduced unless domestic demand rises less than output, so that a greater proportion of output is used either for exports or to replace imports. Even when special measures are taken to favour exports or to discourage imports—as e.g., with the tax changes in France—there is a simultaneous job to be done in the management of demand. The same is true, in reverse, of action to reduce the current surpluses of Italy or West Germany, whether the initial action is to stimulate domestic demand or special measures to encourage imports and to discourage exports. Domestic demand will have to rise more than output so that a greater proportion of demand is satisfied by imports or by diversion of goods from export to the home market.

Primary responsibility for action lies with individual governments. Their task is diffcult not only because of the complexities of balance of payments adjustments but also because of the social and political problems entailed. Individual action on the national balance of payments impinges on other countries and its success is necessarily affected by the action which other countries take. Disequilibrium cannot therefore be eliminated without co-ordinated action between the major industrialised countries. That action has been inadequate in 1968 reinforces the need for more determined co-operative effort in 1969. There is no easy solution. No reform can relieve countries of the necessity to adjust and no adjustment can be painless. Nor is it reasonable to expect that countries would be willing to accept a more rigorous system designed to force them to adjust, regardless of the consequences on other aims of their domestic policies. The international monetary system cannot do more than provide a framework which helps and encourages countries to seek, through co-ordinated action, compromises between national and international aims which secure adjustment with the least disturbance to the aims which they share.

Sources and Acknowledgments: I have taken the basic data from the OECD's authoritative "Economic Outlook" which, whatever the occasionally quaintly Keynesian interpretations offered, is a solid mass of valuable facts, statistics, tables and charts. The OECD, however, can hardly be held responsible for (to end with a mixed metaphor to end all mixed metaphors) the idiosyncratic reflections and comments with which I have adorned, and speeded up, the slow moving dignity of the "Economic Outlook's" majestic pages.

Common Market Today

E. B. BROOK

VIENNA:

WESTERN EUROPE'S principal trading group, the Common Market, had a trying year in 1968 and it faces some fairly crucial problems this year. Its six members, especially the two big ones, France and West Germany, have shown plenty of nationalist wilfulness and, at times, so little co-operation as to be near economic hostility.

The classic example occurred during the last currency crisis when the Germans did everything they could to force a devaluation of the franc and France did her best to secure a revaluation of the Deutschmark. Neither succeeded, but the blatant clash of interests over so vital a matter as the worth of a partner's cash and the fact that it was a French member of the Market Commission, M. Barre, who helped to persuade de Gaulle not to devalue the franc cast a distinct chill over prospects of co-operation within the Market

There has been also a credit side to the Market's record in 1968. It has decided to reactivate its committee on technological co-operation with orders to make recommendations early this year. The commission has also worked on the proposal for a renewal of the Yaounde convention with the Market's African associates and expects to have a proposal ready by April.

Principal among the Market's achievements last year was the completion of its customs union on July 1 well ahead of schedule and the beginning of consideration of the Market's immense agricultural problems, with the Dutch Dr Sicco Cansholt's far-reaching proposals as basis of discussion.

The debit side of the Market's work can pessimistically be described as ominous. There is no advance in attitudes regarding Britain's and others' applications to join the Market and, on the British side, no indication of any willingness to negotiate other than directly for membership as before. The Germans and the Dutch are impatient with the British for not pressing on with a back-door approach to Europe but, in shunning this manoeuvre, Mr Wilson probably has the British behind him to a quite unusual degree.

A direct Market failure has been its decision not to give Euratom a new long lease, substituting for it a makeshift arrangement which casts doubts on the permanency of other forms of technological co-operation also.

In this and other ways the Market came hard up against nationalist interests of its members in 1968 and did not always emerge successfully. Its principal setback has been in the financial difficulties; the Market will have no solution of its own to offer before mid-February and will not, even then, speak with a strong, still less with an authoritative, voice.

But by no means is all ill with the Market. The fact that it has unsolved problems means that it has plenty to do throughout this year and is in no risk of leaning back, content with its achievements or dozing in a haze of general agreement.

The new African agreement, the agricultural policy and technological co-operation will alone provide enough problems and conflicts of interest to keep the Market very much awake and on its toes.

The Market has also begun the massive job of formulating a common policy for dealing with energy products such as coal, oil and natural gas. The first guidelines of a programme to equalize the economic conditions under which such products are used has just been submitted by the executive committee to the council of ministers.

In their proposals the consumers' interests in low-cost energy are stressed and there are no provisions for discrimination between Common Market and non-Market energy companies which means that American and British oil companies would not see their Market competitors receive more favourable treatment.

Debate over the energy policy and over the agricultural

proposals is bound to be long and contentious; they deal, not with passing interests however momentarily critical, but with issues vital to the economic health of Europe and beyond and with problems raised by the latest, and often swift and immense, developments in industrial technology.

For this reason the pessimistic view of the Market must be rejected. If these problems can be solved and the Market, with however much contention, can keep pace with constant developments in the fundamental subjects it handles, it will be doing its job and maintaining its own vitality far more than by resting on achievements. The life of the Market—and of any such organisation—is often better measured by the sharpness and intenseness of disagreement between the interests of its members than by measuring the agreement eventually obtained.

There are a host of lesser subjects ahead of the Market also and completion of its first twelve years at the end of 1969 should see Brussels the capital of a stronger, because more tried, organisation than it is now.

Of the European Free Trade Association it is not possible to write so encouragingly. The organisation, it is true, has survived by eight years the first expectations of its demise and it continues in full vigour in Genevá where it has finally established a full secretariat and headquarters.

The principal problem for EFTA this year will be that presented by the probable establishment of a northern trading bloc by the Scandinavians, Finland and Iceland. It has yet to be seen how far such a group would operate within or apart from EFTA and, if entirely apart from it, how far EFTA would continue to serve a useful purpose. Of the other EFTA members, Britain is in some bad odour on account of its alleged self-seeking trade regulations some of which are still said to contravene the EFTA agreements. Austria is still seeking to leave EFTA and join the Common Market where most of its trading lies.

Having beaten the Market in speed in establishing a members' customs union EFTA appears to be looking round for new economic worlds to conquer and not finding them. Like the European Union in politics EFTA, unless it can become more dynamic and find greater issues to deal with, risks falling into a third line organisation to be brought forward only when a useful occasion offers.

Economic Issues Facing the New Administration

GERARD A. DONOHUE

WASHINGTON:

ECONOMIC ISSUES will be high on the list of priorities to take decision by the New Administration and Congress. Not that the overall economy is in any serious trouble. Far from it. The boom that began some eight years ago is continuing; most Americans are enjoying a prosperity undreamed of only a few years ago: this year the gross national product will exceed $900,000 million, the budget at the end of the fiscal year in June will show a surplus, and the strength of the dollar abroad is self-evident.

But, several serious, nagging problems remain, some of them, such as checking the inflationary trend in the economy, can be solved fairly easily. Others such as reducing, if not ending poverty, and rebuilding decaying cities, will take a long time and fantastic amounts of money.

Until just a couple of years ago, Americans thought of "inflation" as something that happened in other countries. But because of the heavy, and frequently underestimated costs of the war in Vietnam, prices which had been gently rising at about two per cent per year suddenly started spurting upwards, to about five, or five and half per cent in 1968. Although, a tax increase was adopted and government spending was cut, prices continued to rise.

Some blamed the consumers who continued to spend at a record pace in spite of the tax increase; others blamed economic forecasters for not understanding the consumer. And still others blamed the Federal Reserve Board, the nation's central bank, for allowing deposits and credit to rise too rapidly. But whatever it was, the howls from the housewives paying more for groceries and clothes, and the complaints from businessmen forced to pay high interest rates for loans, have made the government determined to slow the rate of increase without over-reacting and bringing about deflation.

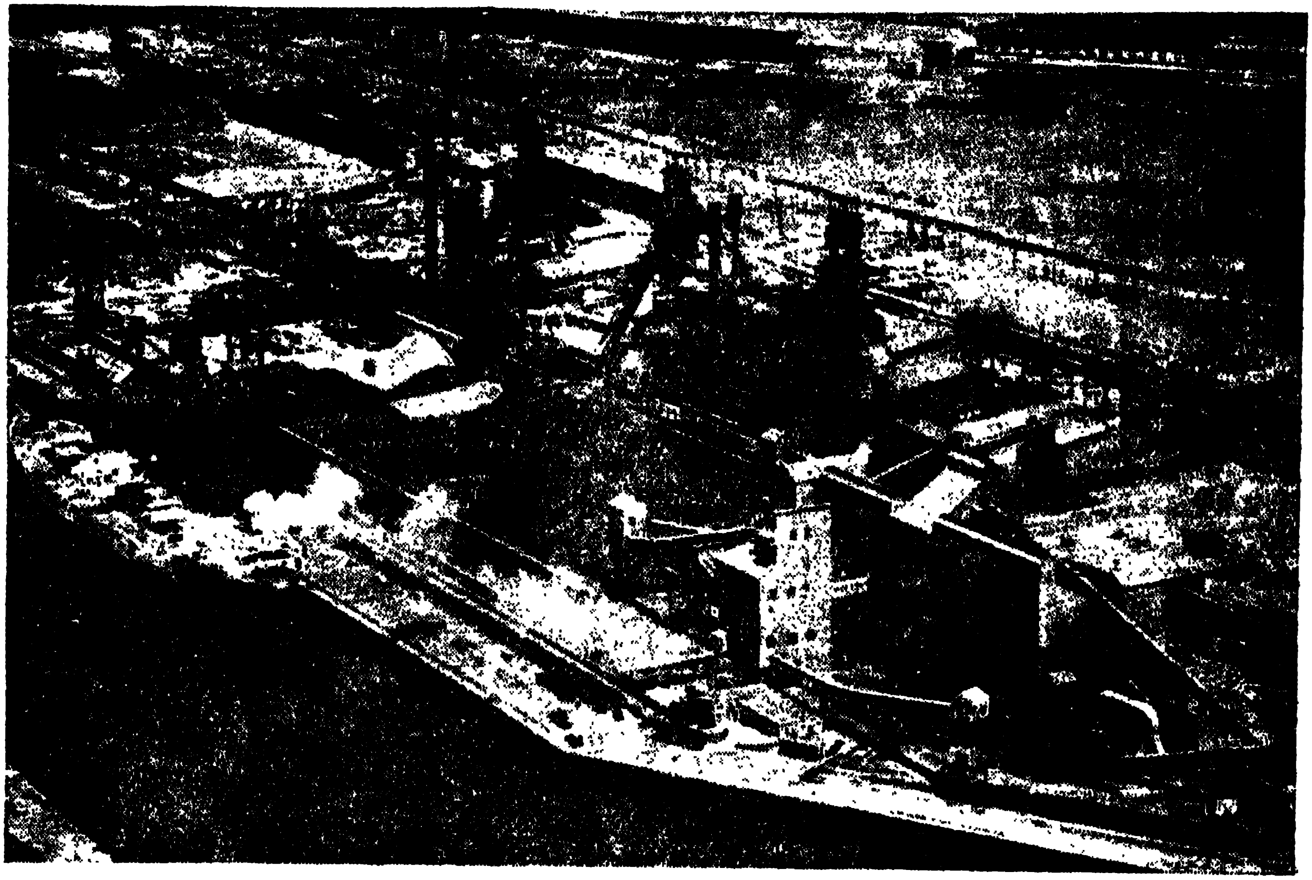
Before Mr Nixon takes office on January 20, President Johnson will submit to Congress the budget for the fiscal year beginning July 1. Exactly how much spending it will call for is not yet known; nor is it known whether Mr Johnson will ask for an extension of the surtax. But the budget request will almost certainly be more than $190,000 million. Mr Nixon will have very little leeway over many of the expenditures, such as those for social security, interest on the national debt and other programmes established by law.

Defence spending is always the largest amount and often the most difficult to estimate very far ahead. Much will depend upon the war in Vietnam. If peace could be restored there, and American forces returned home, large amounts could be saved. But in the light of the world situation, it is hard to foresee much of a cut in overall defence spending. But something will have to be done about "the cities." Government officials, civic leaders, businessmen and urban residents, both Negro and white are constantly demanding action in the "war against poverty in the midst of plenty," as it is often called.

The slums, in particular the Negro "ghettos", as they are often if not accurately termed, are getting bigger and worse, the President's Commission on Urban Problems reported recently. The number of people on relief or welfare rolls, is increasing steadily. In New York City alone, about one million people out of a population of about eight million are receiving public welfare.

Financial resources of the cities are being strained. Mr Nixon is known to advocate giving tax concessions to companies that will build or expand plants in the cities and hire those that under normal conditions would be considered "unemployable." But how the Congress will regard this proposal is not known. There is general agreement that the Federal Government will have to do something to aid the cities in building more and better schools and in meeting welfare costs, among other steps.

The new administration and the Congress are also going to study hard the approaches to foreign aid in hopes of devising means that will be more effective and more acceptable to both donors and recipients. All of these and other economic problems, such as foreign trade, agricultural subsidies and many others, will be prime topics of study and debate as President Nixon and the Senate and House of Representatives determine priorities and methods of solving the economic problems facing the United States.



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The moving finger writes

I CONFESS that I am much less impressed by Mrs Gandhi's moves seeking to bring about the ending of Pakistan's and China's enmity towards us than by the efforts which the Government of India has been making to develop economic co-operation between our country and others, such as Iran and Ceylon. Ceylon and India are finding themselves fellow-sufferers in the misfortune brought about by falling tea prices in world markets. This has encouraged in the two countries the idea that they should unite in improving the bargaining position of tea in international trade. Starting from this, there is a trend, both in Colombo and New Delhi, favouring the exploration of possibilities of economic co-operation generally, which will be mutually advantageous.

As for Iran, the recent visit of the Shah with the Empress, and their tour of the land have been amazingly productive of opportunities for creative friendship. Iran is obviously interested in trading with our country in a big way as well as collaborating in joint industrial ventures. There is clearly great scope for wedding the business and industrial skills of our country to the rich natural resources of Iran, the young enthusiasms of its rising entrepreneurial class and, above all, the practical as well as dedicated commitment of its modern-minded and forward-looking ruler to the building of Iran's economy. After years of wandering in the wilderness, our foreign policy seems, at last, to be discovering useful directions.

* *

While I am all for our government trying to end the unhappy state of hostility now existing between Pakistan and our country, or, between China and our country, I must point out that Mrs Gandhi could not have chosen a more unlikely time for putting out her feelers. It may be argued, of course, that she has stated no new position either on Indo-Pakistani issues or on Indo-Chinese issues and that what she is now saying on these subjects is merely what was always our government's case, namely, its willingness to be flexible and responsive in assisting in the peaceful settlement of our outstanding disputes. But, whether Mrs Gandhi has intended that she should be so understood or not, her latest pronouncements have been widely interpreted as meaning that our government is ready to go farther now than it was ever before in helping in the normalisation of Indo-Pakistani or Indo-Chinese relations.

While this initiative on her part is, undoubtedly, welcome, I would reiterate my feeling that it has not been properly timed. President Ayub, for instance, has so many worries on his mind that he cannot reasonably be expected to give high priority to any serious effort towards improving Pakistan's relations with India. Superficially it might seem that the President of Pakistan would be better able to deal with the current distempers and discontents in his country, which are steadily developing into a revolt against his dictatorship, were he to succeed in reaching a settlement with India. In reality, given the present state of turbulence in the internal politics of Pakistan, any such settlement, whatever its terms, is certain to be used against President Ayub by one or the other of the factions now engaged in the succession struggle. This, in my opinion, may be expected to be sufficient reason for President Ayub not to thrust his neck out in pursuing a settlement of Pakistan's emotive claims against our country. This apart, as I had indicated earlier, President Ayub has more pressing matters to attend to nearer home.

As for China, attempts to divine what Peking's next move may be in international affairs has always been a fascinating game which has also been, usually, a futile pastime. Right now there is much wishful thinking in the world's press, if not in the world's chancelleries, about Chairman Mao's supposed new-found enthusiasm for peeping over, if not jumping over, the Great Wall of isolationism Red China has built around itself and its sphere of influence in Asia. I, for one, would however be extremely surprised were Peking's current thoughts to be concerned with anything apart from the course of the Vietnam talks. It stands to reason that Chairman Mao's prime international objective, immediately, should be to try to exploit for the purposes of Chinese expansionism the next phase in the Vietnam affair, whatever the nature of that phase may be. It follows that with China, as with Pakistan, negotiating with India can only have a very low priority.

* *

I have no hesitation in rejecting the contention of Mr Karunanidhi, the DMK minister, who master-minded the election campaign of Dr Mathias (who contested the Nagercoil by-election as an independent, but in reality as the Swatantra candidate), that the CPM was responsible for the decisive defeat of Dr Mathias by Mr Kamaraj. It is true that the CPM fielded its own candidate, but the margin secured by Mr Kamaraj was so large that it could safely be said that the intervention of the CPM candidate, who lost his deposit, did not materially affect the course of the main contest. It may be argued that, once the CPM had concluded that its candidate had really no chance, it began canvassing for Mr Kamaraj since it did not want the Swatantra candidate to win in any event. This argument assumes that the CPM did have at one time reasonable belief in the effectiveness of its candidate—an assumption which is hard to justify given the elementary facts of the pattern of the political loyalties or sympathies in the Nagercoil constituency.

In the circumstances, I am inclined to agree with the CPM contention that their only purpose in putting up a candidate was to record a protest against the DMK's decision to support the Swatantra-based Independent, Dr Mathias. The CPM, in other words, was only interested in making a political gesture, and so far as Mr Kamaraj or the Congress party was concerned, he or it owed nothing to the intervention of the CPM for the Nagercoil victory. Mr Karunanidhi, therefore, was barking up the wrong tree. Incidentally, I am prepared to assert that even if the DMK had chosen to give fight in its own name and under its own flag, it could not have hoped to score against Mr Kamaraj at Nagercoil. A lot of Cooum has flowed down the Hamilton Bridge since the fourth general election. If Mr Annadurai does not know it yet, somebody ought to tell him.

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An editorial in 'The Hindustan Times' (January 6-7): "Mrs Indira Gandhi is one of 28 Heads of Government or Foreign Ministers who will have arrived in London today for the Commonwealth Prime Ministers' Conference. Where are they headed?"

Simple, my dear Watson. They were headed for the Commonwealth Prime Ministers' Conference.

V.B.

Trade Winds

HINDUSTAN MOTORS TO EXPORT SPARES

A TEAM of senior executives from the General Motors Corporation, USA, arrived in Calcutta recently to explore the extent to which Hindustan Motors can supply components and assemblies to them for use in their regular production of cars and trucks. General Motors purchases annually 10 billion dollars worth of goods from various suppliers. If they buy even 1 per cent of this from our country, the value of our exports could amount to 100 million dollars. It may be mentioned in this connection that only a couple of months ago the General Motors chairman, Mr James M. Roche, visited this country to open the new engine plant of the Hindustan Motors factory at Uttarpara. He was much impressed by the progress made by our automobile industry. The visit of the present team is in a way a follow up of Mr Roche's visit. General Motors has nearly 150 plants throughout the world.

U.S. LOAN FOR FORGINGS PLANT

The United States government recently extended a loan of Rs 30 lakhs to Wyman-Gordon India Ltd, of Thana, Maharashtra, to help finance the expansion of the firm's forgings plant. The firm plans to use the loan to increase its annual capacity from 4,800 tons of forgings to 6,000 tons. Mr S. P. Rao, Managing Director of Wyman-Gordon, and Mr John P. Lewis, Minister-Director, United States Agency for International Development Mission, signed the agreement. Wyman-Gordon produces a considerable proportion of connection rods, propeller shafts, steering gears, universal joints, clutch levers, crankshafts, and other forgings manufactured in this country. Forgings are important components of automobiles, airplanes, railway locomotives, and tractors. The Industrial Credit and Investment Corporation of India has extended a foreign exchange loan to Wyman-Gordon to import a part of the machinery required by the expansion project. The remaining machinery will be purchased from indigenous sources with finance provided by a part of the US government loan. In 1963 the US government extended a loan of Rs 25 lakhs to Wyman-Gordon.

AIR-INDIA'S HOTEL PLAN

Air-India plans to construct five-star hotels in New Delhi, Bombay, Calcutta and Madras to extend better facilities to the increased number of passengers when jumbo jets join its fleet in 1971. Land for a hotel in Bombay has already been acquired and work on the project would commence soon. To earn more foreign exchange for the country, special tourist promotion schemes, such as chartered flights, conducted tours and concessional fares are being made. When jumbo jets clip flight time between Delhi and European capitals and the air fares slump, more foreign tourists would be keen to come to this country. Air-India is also contemplating to computerise its ticket reservation work at major world centres to extend quick service to passengers.

INDIA-G.D.R. TRADE TALKS

Talks between our country and the German Democratic Republic aimed at a long-term trade agreement and finalisation of the trade plan for 1969 opened in New Delhi recently. Mr N. P. Singh, Director, Foreign Trade, Ministry of Commerce, and Mr H. Sachse, Director-General of External Economic Relations, are leading the Indian and East German delegations respectively at the week-long talks. The trade both ways is at present of the order of Rs 42 crores. The Indian delegation, it is understood, will try to secure a shift in the existing trade pattern between the two countries in line with the changes effected in the trade with other East European countries by the mission led by Mr Mohd. Shafi Qureshi, Deputy Minister for Commerce in October last. We expect to secure imports of more fertilisers, to the extent of one-third of total imports from GDR, and of certain other items including tractors. So far, the principal items of imports from GDR have been fertilisers, printing machinery, rolled steel products, newsprint, calculating machines and machine tools. Our exports to GDR, besides traditional items, have been engineering goods, hand-knitting machines, and textile machinery.

MANUFACTURE OF BLEACHING EARTHS

Bleaching earths are widely used in the decolorisation of vegetable oils, fatty acids etc. These earths are being produced in the country by two firms. Their present annual production is about 3,500 tonnes. Indigenous production is far short of the demand in the country (5,000 tonnes) which is expected to further increase. The Regional Research Laboratory, Hyderabad, has been engaged in developing activated earths from bentonite and Fuller's earth for bleaching purposes for quite some time. They have successfully worked out a process according to which the natural earth is processed and activated under controlled conditions. The bleaching earth developed by the laboratory is comparable to imported earths.

TEA PROCESSING MACHINERY FOR UGANDA

Steelworth Private Ltd has won an initial export order worth more than Rs 3 lakhs from Uganda for the supply of tea processing machinery. It is stated that after this is executed, the way will be paved for further orders. Steelworth will have

Eastern Economist 25 Years Ago

JANUARY 21, 1944

The publication of a 15-year plan for the development of India so as to revolutionise her living conditions by a body of leading industrialists constitutes a landmark in the history of post-war economic planning. The plan is not a blue-print, it is only an outline indicating the direction and goal. The details of the plan will have to be worked out when its essential basis has been endorsed by the country. But there is no doubt that the plan will receive widespread approbation and approval, for there can be no difference in respect of the objective set out or the end to be achieved. The trebling of the total national income or the doubling of the per capita income in a period of fifteen years and the increase in the national welfare and living conditions of the masses of the population which such doubling of the per capita income implies may be regarded by some as too ambitious. Indeed when one reads that in order to reach the goal an expenditure of as much as Rs 10,000 crores is contemplated, it is almost certain that one will put it down in the first instance as visionary and failing to take account of the so-called hard realities of economic phenomena. But the sponsors of the scheme are not academic theorists or visionaries who take delight in dreams. They are practical businessmen, disciplined in the school of realism and fully aware of the implications of what they have set out to achieve. No one can therefore afford to brush aside the memorandum as one of the numerous essays emanating from the land of Utopia but will on the other hand have to examine the plan in all its aspects against the background of our economic circumstances and in the light of our hopes and fears.

to import some components and obtain the rest from Calcutta and Assam, process them, and send the finished product for shipping, thus incurring heavy transport costs, and yet have been able to compete with overseas firms.

CARDAMOM LICENSING RULES

According to the Cardamom (Licensing and Registration) Rules 1968, published in the Gazette of India on December 27, 1968, all auctioneers and brokers engaged in the business of cardamom have to obtain a licence and all dealers in cardamom have to register their names with the Cardamom Board, before January 27, 1969. No person shall, after January 27, 1969, engage himself in the business of cardamom as an auctioneer or broker or dealer except under and in accordance with the terms and conditions of a licence or a certificate of registration issued to him in this behalf by the Cardamom Board, Chittoor Road, Cochin.

TOURS OF U.K. PLASTICS FACTORIES

Overseas visitors to Interplas—the 1969 International Plastics Exhibition for Europe, at Olympia, London, during June 18 to June 27—will have the opportunity to take part in specially organized conducted tours of plants and factories of the British plastics industry. The tours are to be arranged by Independent Trade Missions Limited, in conjunction with the organizers of Interplas. Prospective visitors to the exhibition who wish to take part in the tours are invited to apply to Independent Trade Missions Limited, 25, Queen Anne's Gate, London, S.W.I. England, as soon as possible, indicating their spheres of interest. Interplas has been sponsored by the journal 'British Plastics' in co-operation with the British Plastics Federation.

AUTOMOBILE TARGET

A working group on transport equipment appointed by the union Ministry of Industrial Development is understood to have recommended a target of 175,000 vehicles by the end of the fourth Plan. This will comprise 85,000 commercial vehicles, 75,000 cars and 15,000 jeeps. The current production is 80,000 vehicles. In regard to two-wheeler and three-wheeler vehicles, a target of 210,000 has been suggested against the current production of 85,000 vehicles. Another panel has recommended doubling of the output of ancillaries both in quantity and value. Thus against the present production valued at Rs 84 crores the output during the fourth Plan is expected to go up to Rs 170 crores. This projection has been made in the light of the vehicle production targets and the anticipated growth in vehicle population during the fourth Plan period. It will cover all the major components not only of motor vehicles, but also of tractors, earth-moving equipment and internal combustion engines.

BANK OF RAJASTHAN JUBILEE

Inaugurating the silver jubilee celebrations of the Bank of Rajasthan recently, the Deputy Prime Minister, Mr Morarji Desai, stated that he had received no complaint so far against the working of social control; he was actually quite satisfied with its working. But there were some who were suspicious that this happy situation might not continue for long and that bankers might undo social control. The government, he warned, would not allow any kind of violation. Social control, he added, had been thought of for the larger development of the country as a whole and to ensure availability of resources for a greater number of entrepreneurs. Social control should make resources available to "new" people, specially to small industrialists and farmers, he said.

Mr Desai called upon the banks to particularly help the agricultural sector in purchasing equipment, fertilisers and the like. This would create confidence among the rural population, impelling them to deposit their money in banks and not turn it into gold. He also wanted banks to seek people eligible for financial assistance rather than wait for them to come to them.

The Rajasthan Chief Minister, Mr Mohanlal Sukhadia, spoke of the state's increased industrial potential made possible by power resources and new finds of rock phosphate or concentrates in certain parts. He said the state could get over its backwardness in the next 10 years if it was enabled to convert the raw materials into finished products.

KAMANI'S TOWERS FOR IRAN

Kamanis have secured a Rs 15-crores contract for the supply of 25,000 tonnes towers and 11,500 tonnes conductors. Kamanis have already supplied 1,500 tonnes of towers to Iran and last year secured an order for 5,000 tonnes of towers and 3,000 tonnes of conductors. The Kamanis deal will envisage the establishment of an organisation and engineering network over a wide area in Iran to collect data for the work. There are nearly 16 electricity authorities in Iran located in different regions. The financial institutions in this country will have to face deferred payment problem and Kamanis propose to take the assistance of the IDBI, ECGC and commercial banks.

BONUS ACT AMENDED

An ordinance has been promulgated by the President under Article 123 of the Constitution to amend Section 5 of the Payment of Bonus Act, 1965. The object of the amendment is to clarify the amount of direct tax deductible from gross profits in the computation of available surplus. The available surplus, according to the amended Section 5, will be so computed that the amount of tax rebate accruing to the employers on account of the bonus paid or payable under the Act becomes a part of the available surplus of the succeeding year instead of going entirely to the employers. The effect of the amendment would be to increase the amount of available surplus, sixty per cent of which (sixty-seven

per cent in the case of foreign companies) is alloeable for payment of bonus to the employees. The amendment is applicable to computation of available surplus in respect of the accounting year commencing on any date in the year 1968, and in respect of every subsequent accounting year.

DEMOGRAPHIC DATA

Dr S. Chardrasekhar, union Minister for Health, Family Planning and Urban Development, drew pointed attention in Bombay recently to a disquieting situation caused by the fact that the country's system of registration of births and deaths was steadily deteriorating in spite of efforts to improve it. The problems of improving data collection had been discussed threadbare and the causes for the present position were well understood, but the situation had shown little improvement, the Minister added. He was delivering the inaugural address at the symposium on "Population Problems of India", held under the auspices of the 56th session of the Indian Science Congress.

LIBERALISATION OF LICENSING

The Minister for Industrial Development and Company Affairs, Mr Fakhruddin Ali Ahmed, indicated recently that the government was considering further liberalisation of licensing procedures subject, however, only to constraint by foreign exchange availability. Licensing of industries, he said, had by and large been "extremely pragmatic".

JAPANESE TRADE TEAM ON PORTS

The Japanese trade mission now here to survey the prospects of increased trade in primary products with this country would also study the adequacy of port facilities at the Vizag, Calcutta and Haldia ports. This was stated recently by Mr Takeshi Okamura, leader of the 10-member Japanese delegation. He said there was considerable scope for an increased offtake by Japan of the primary products from this country. But the Japanese Government felt that the prices charged for these were on the high side and this was directly due to the poor facilities for transhipment between India and Japan. Mr Okamura said that Japan's desire to expand her trade with India in primary products was based on a two-fold objective. First, it was necessary to correct the present trade imbalance between the two countries. According to him, imports into Japan during 1968 totalled $260 million as against Japan's exports worth $140 million to India. Secondly, Japan wanted to collaborate with India to improve her foreign exchange earning capacity through stepping up trade. Mr Okamura indicated that another trade mission was likely to visit India to survey the prospects of Japan's buying intermediate and engineering goods.

MADRAS RUBBER FACTORY

A loan of Rs 75 lakhs had been extended to Madras Rubber Factory by the US government to help finance its expansion scheme. The company plans to increase its production capacity of automobile tyres and tubes by 25 per cent to 450,000 each. Retread rubber production is planned to be enhanced to 9,000 tons from 5,000 tons. New plant facilities will also be established at the factory in Madras to manufacture two million bicycle tyres and tubes. A part of the increased output will be for export.

CANARA BANK

Canara Bank has shown satisfactory progress during the year 1968. Preliminary un-audited figures indicate, that the bank's deposits have increased from Rs 126.56 crores as at December 31, 1967, to Rs 146 crores as at the end of 1968.

During the year 1968, the bank took over the Pangal Nayak Bank Ltd. Including the branches taken over from the Pangal Nayak Bank, 55 new branches were added during 1968, making a total of 302 branches as at the end of 1968. The branches cover 11 states and the union territories of Delhi, Pondicherry and Goa. As many as 177 branches serve rural and semi-urban areas.

RAYMOND WOOLLEN IN CRISIS

The Raymond Woollen Mills at Thana is on the verge of closure for want of raw material. The combing division has already closed down and if fresh wool supplies did not arrive soon, the entire mill might have to be closed down. Raymond is among the foremost worsted mills in the country producing about 6,000 metres of worsted fabrics every day. The delay in the import of wool could seriously affect the export of the fabrics. Raymond itself accounts for 60 per cent of the exports, its performance in 1967 being of the order of Rs 1 crore and in 1968 Rs 85 lakhs.

COOPER ALLEN TAKEN OVER

The union government has decided to take over Cooper Allen Tanneries in Kanpur. The terms and conditions for the take-over have been discussed with the Bajorias and an agreement arrived at.

NAMES IN THE NEWS

Mr Nani A. Palkivala has been elected chairman of the Associated Cement Companies Ltd, with effect from January 1, 1969.

Mr Keshub Mahindra has been elected president of the Maharashtra Economic Development Council for 1969. **Mr Babubhai M. Chinai** has been elected the chairman of the Council. **Mr M. L. Apte**, vice-president of the Maharashtra Chamber of Commerce, and **Mr P. L. Badami**, secretary-general of the All-India Manufacturers' Organisation, have been elected general secretaries of the Council.

Just a house or a ministerial bungalow.

Company Affairs

DENA BANK

THE DIRECTORS of Dena Bank Ltd have recommended a final dividend of Rs 4 making a total of Rs 6 per share, (12 per cent), the same as in the preceding year. The net profit of the Bank, subject to audit, amounts to Rs 31.48 lakhs against Rs 33.03 lakhs in the preceding year. Together with the amount brought forward from the previous year's accounts, the amount available for appropriation comes to Rs 32.46 lakhs. The interim dividend has absorbed Rs 5 lakhs. The allocation to the reserve fund has been maintained at Rs 10 lakhs, taking the reserve fund to Rs 1.60 crores. The proposed final dividend will absorb Rs 10 lakhs. A sum of Rs 7.46 lakhs, subject to payment of bonus to staff, is carried forward. The total deposits of the bank have gone up by Rs 19 crores to Rs 121 crores and advances by Rs 7 crores to Rs 71 crores. The working funds have risen from Rs 114 crores to Rs 130 crores, and the number of accounts from Rs 5.30 lakhs to Rs 5.90 lakhs. The bank has 214 offices in 14 states.

KIRLOSKAR BROTHERS

Kirloskar Brothers Ltd suffered a set-back in its working for the year ended July 31, 1968. Although sales and other income has gone up a little to Rs 9.94 crores against Rs 9.92 crores, the gross profit of the company has dropped to Rs 95 lakhs from Rs 106.02 lakhs in the preceding year. The directors propose, however, to maintain the dividend of 9 per cent, on equity shares. The provision for managing agents' commission is lower at Rs 5.09 lakhs and that for depreciation has gone down to Rs 25.44 lakhs from Rs 25.52 lakhs. The provision for development rebate is also lower at Rs 4.28 lakhs. The provision for taxation, including Rs 5.18 lakhs pertaining to previous years, amounts to Rs 38 lakhs. The net profit comes to Rs 22.71 lakhs. The allocation to the general reserve has been reduced from Rs 16.50 lakhs to Rs 7.50 lakhs. Allocations to debt redemption reserve and capital redemption reserve have been maintained at Rs 2 lakhs and Rs 1 lakh respectively. The proposed dividend on equity and preference shares will account for Rs 12.30 lakhs.

HINDUSTAN ANTIBIOTICS

Hindustan Antibiotics Ltd, Pimpri (Maharashtra), has reported a fall in the sales and profits for the year ended March 1968. The gross profit has dropped from Rs 243.22 lakhs in 1966-67 to Rs 165.31 lakhs in 1967-68. After providing Rs 40.70 lakhs for depreciation, Rs 6.98 lakhs for development rebate reserve, and Rs 64 lakhs for taxation, the net profit is lower at Rs 49.63 lakhs against Rs 86.23 lakhs in the previous year. Sales have come down from Rs 716.60 lakhs to Rs 646.62 lakhs. The net profit has been arrived at after providing Rs 10.22 lakhs for payment of arrears to the employees on account of the recent settlement with the workers. A sum of Rs 11.83 lakhs has also been charged to the accounts for scientific research in terms of the Finance Act, 1967. The directors propose to maintain the dividend at 10 per cent, which absorbs Rs 24.73 lakhs. They, however, intend to lower the special dividend from 5 per cent in the previous year to 4 per cent for the year under review. This will absorb Rs 9.89 lakhs. A sum of Rs 27.32 lakhs is proposed to be transferred to the replacement reserve, against Rs 32.40 lakhs.

ABRASIVES & CASTINGS

The working of Abrasives and Castings Ltd, during the year ended June 30, 1968, has resulted in a profit of Rs 44,750 against a loss of Rs 2.72 lakhs in the previous year. The total loss of Rs 2.24 lakhs has been set off against general reserve, leaving a balance of Rs 1.35 lakhs to the credit of general reserve. Arrears of depreciation for 1966-67 and 1967-68 amount to Rs 6.42 lakhs and those of development rebate reserve to Rs 65,000. Sales have risen to Rs 22.24 lakhs from Rs 16.04 lakhs. The directors have stated that the working of the company was affected during the year due to labour unrest in the Calcutta region. Its plants remained closed for 38 days due to strikes. The working in the current year has, however, been satisfactory and sales in the first five months of the current year from July to November, amounted to Rs 14.34 lakhs against Rs 8.55 lakhs in the same period last year. The outlook for the sugarcane crushing mill also was reported to be satisfactory. Erection of new machinery at the steel foundry was almost complete and trial runs were expected to start soon.

HASTINGS MILLS

Hastings Mills Ltd proposes to enter the market with a preference issue of Rs 25 lakhs in 25,000 redeemable cumulative preference shares of Rs 100 each carrying a fixed cumulative preferential dividend of 9.3 per cent on January 20. The subscription list will close on January 31 or earlier at the discretion of the directors but not before January 25. Against an authorised capital of Rs 2 crores, the company has a paid-up capital of Rs 80 lakhs in ordinary shares of Rs 100 each and preference capital of Rs 25 lakhs in preference shares of Rs 100 each. The company was incorporated in 1935 to acquire and take over as a going concern the business and goodwill of the jute manufacturing business then carried on by Birkmyre Bros at Rishra and elsewhere and also to carry on the business as manufacturers of fibrous materials. The company, however, has not confined its activities to the production of jute products only but started an art-silk weaving section under the name and style of "Shree Ram Silk Mfg. Co." and another separate unit to manufacture coir products.

UNICHEM LABORATORIES

Unichem Laboratories Ltd is setting up a new plant at Ghaziabad (UP) for the manufacture of high protein vitaminised biscuits and sweets. The company has obtained a licence for the production of protein toffees (900 tonnes), biscuits (1,500 tonnes) and weaning foods (3,000 tonnes). These products will have 25 per cent protein with a minimum

requirement of vitamins. The plant, which is expected to go into production in April this year, will need daily about 350 kg of proteins to be extracted from specially prepared groundnut cake. The company has plans to start three more similar units in different parts of the country—one each in Bombay, Hyderabad or Cochin and Patna or Varanasi. It is proposed to sell these products almost on a no-profit-no-loss basis. The company is already producing a number of pharmaceutical products, including enzymes, vitamins, insulin etc., at its Ghaziabad factory.

HYDERABAD ALLWYN

The excise duty levied for the first time on steel furniture and the increase in duty on refrigerators adversely affected the working of the Hyderabad Allwyn Metal Works Ltd, for the year ended April, 1968. The company incurred a loss of Rs 55.69 lakhs after providing Rs 13.55 lakhs for depreciation. A balance of Rs 6.37 lakhs is available after adjustments against excess depreciation and taxation and taking into account the sum brought forward from the previous year. Reserve for contingencies gets Rs 6.20 lakhs leaving Rs 16,550 to be carried forward. Sales were Rs 4.68 crores against Rs 5.84 crores in the previous year.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the fortnight ended November 9, 1968. The list contains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting— and annual installed capacity.

During the Week ended November 2, 1968

LICENCES ISSUED

Machine Tools

M/s Kantilal Chunilal & Sons, 3, Jawahar Rd: Udyog Nagar, Post Box No. 4, Udhna, (Distt. Surat), (Gujarat State) Heat Treatment and Annealing Furnaces—20 units; Muffle Furnaces—20 units; Salt Bath Furnaces—15 units; Industrial Ovens—25 units; Thermostats—25,000 nos.; Industrial Heaters for Ovens, Acid, Alkali & Pickling Baths etc—5,000 nos; Automatic Controls for Ovens, Heaters, Oil, etc— 2,000 nos; 3-Heat & 7-Heat Switches—10,000 nos; Controls for Automatic Irons 40,000 nos. (N.A.).

Textiles

M/s Zenith Silk Mills, Vadtal Devdi Road, Surat-3. (Gujarat)—Art Silk Fabrics—21 Art Silk Powerlooms · (Total of 121 Powerlooms after expansion). (S.E.).

Food Processing Industries

M/s Ranglal Flour Mills, Upper Bazar, Ranchi. (Bihar)—Wheat Products—6252 tonnes (on three shift basis). (C.O.B.). M/s Shree Gujarat Flour Mills, Prop. M/s M. C. Modi & Co., Signal Falia, Godhra (Gujarat)—Wheat Products—12,432 tonnes (on three shift basis)—(C.O.P.); M/s Shree Ganga Flour Mills, 14 & 15, Grand Foreshore Road, Ramkistopur, Howrah. (West Bengal)—Wheat Products—14,388 tonnes (on three shift basis). (C.O.B.).

LETTERS OF INTENT

Metallurgical Industries

M/s Union Carbide India Ltd., P.O. Box 533, Parliament Street, New Delhi. (Madras) · Zinc Strips, Calots and Plates—6.000 tonnes. (N.A.).

Fertilisers

M/s Kalinga Tubes Ltd, 33, Chittaranjan Avenue, Calcutta-12. (Location not yet finalised)—Urea—140,250 tonnes; Nitro-Phosphate (20:20:0)—429,000 tonnes; NPK (15:15:15)—574,000 tonnes; Calcium Ammonium Nitrate—336,000 tonnes. (N.U.).

Chemicals

M/s Indian Organic Chemicals Ltd, 28, Apollo Street, Fort, Bombay-1. (Madras)—Polyester Fibre—6,100 tonnes. (N.U.)

Textiles

M/s Anglo French Textiles Ltd, Pondicherry. (Pondicherry)—Cotton Cloth—57 Automatic Looms. (S.E.); M/s Bally Jute Co. Ltd, 15, India Exchange Place, Calcutta-1. (West Bengal)—Carpet backing Cloth—40-Broadlooms with an installed capacity of 2,750 tonnes. (S.E.).

Food Processing Industries

M/s Foods, Fats & Fertilizers Ltd, Post Box No. 15, Todepalligudem. (Andhra Pradesh)—Fruit Juice Cereals in Powder & Tablets Form—600 tonnes; Breakfast Food & Snacks (Excluding Corn Flakes)—1000 tonnes; Fruit Juice as bottled drinks—400 tonnes. (N.A.).

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s Walchandnagar Industries Ltd.—Steam Turbines; M/s New India Spg. & Wvg. Mills (P) Ltd.—Cotton Yarn; Shri Haji A. B Hakeem, Chief Promotor of M/s The Malegaon Co-operative Spinning Mill—Cotton Yarn; Shri Maharaja Kumar Priyabrata Singh, Manipur Co-operative Spinning Mills, Ltd.—Cotton Yarn; M/s Shree Krishna Fibres and Industries—Cotton Yarn; Shri Mansukhalal Punja Shah, C/o Shri Vinayakrao V. Kulkarni—Cotton Yarn; Shri Goluguri Venkata Reddy, Director: Shri Sarvaraya Sugars Ltd—Cotton Yarn; M/s Rama & Sons (Calcutta) Pvt. Ltd. (New Name M/s Eastern Polymers Corpn. Ltd.)—Acrylic Fibre.

During the Week ended November 9, 1968

LICENCES ISSUED

Transportation

M/s Super Seals India Pvt. Ltd., 21-A, Nizam-ud-din West, New Delhi-13. (Haryana)—Oil Seals—Two million numbers (after expansion). (S.E.).

Textiles

M/s Reliance Jute Mills Co. Ltd, 9, Brabourne Road, Calcutta-1. (West Bengal)—Jute Carpet backing Cloth — 100 Broad Looms to produce 5080 tonnes of carpet backing cloth. (S.E.).

LETTERS OF INTENT

Metallurgical Industries

M/s Usha Martin Black (Wire Ropes), Ltd, 14, Princep Street, Calcutta-13. (Bihar)—High Tensile (20 to 36 SWG)—1,800 tonnes; Shaped Wires, (Various shapes and sizes)—600 tonnes, Copper Coated Wires (19 to 22 SWG)—1,200 tonnes; Mild Steel Wires (19 to 26 SWG)—5,200 tonnes; Tinned Wire (20 to 24 SWG) — 200 tonnes. (N.A.).

Transportation

M/s Scindia Workshop Ltd; (Patent Slip), Dockyard Road, Mazagon, Bombay-10. (Maharashtra) — Sliding & Rolling Covers for Ships—30 sets for six ships; Hatch Covers for Barges—10 sets for 10 Barges. (N.A.).

Industrial Machinery

M/s Braithwaite & Co. (India) Ltd, G.P.O. Box No. 427, Calcutta-43. (West Bengal)—Jute Carding Machine—JF2 Long Jute Breaker Card—40 nos; JF1 Cutting Breaker Card—10 nos; JF10 Teaser Card—10 nos; JF3 Cutting Finisher Card—10 nos.; JF4 Long Jute Finisher Card—30 nos.; Total—100 nos. worth Rs 120 lakhs. (N.A.); M/s Deepak Industries Ltd; 62, Hazra Road, Calcutta-19. (West Bengal)—Marine Gear Boxes—100 units. (N.A.); M/s EID Parry, "Dare House", Post Box No. 12, Madras-1. (Madras)—Lindane—600 tonnes. (N.U.).

Ceramics

M/s H & R Johnson (India) Pvt. Ltd, Nanabhoy Mansion, Sir P.M. Road, Bombay-1, BR. (Maharashtra)—Glazed Tiles—Up to 4290 tonnes. (S.E.).

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s Noble Paint & Varnish Co. Pvt. Ltd, Bombay—Cobalt Sulphate, Cobalt Oxide, etc; M/s Factories Pvt. Ltd. Kanpur—Turning Tools with Cemented Carbide tips. (excluding Carbide tips); M/s C. Vivekananda, Madras—Cotton Yarn.

RECORDS AND STATISTICS

Economic Situation and Industrial Development

THE DEPARTMENT of Industrial Development in the Ministry of Industrial Development and Company Affairs, Government of India, presented a review of our economy in 1968, along with its impact on different industries, at the twentieth meeting of the Central Advisory Council of Industries, held in the capital in the first week of the current month. This review is given below together with the figures of production of all major industries for the period 1961 to 1968.

The Indian economy passed through a difficult phase during 1966 and 1967. Severe drought conditions prevailing in large parts of the country for two years in succession affected agricultural production and incomes. The failure of rains cast its shadow over the whole economy. Larger provision of foreign exchange had to be made for the import of foodgrains. Consequently foreign exchange allocations for the import of raw materials, components and spares required by engineering and chemical industries had to be severely reduced in 1965-66 and through a large part of the following year. Larger budgetary allocations were also needed to afford relief to the drought-affected areas. The unsatisfactory production of crops reduced the supplies to industry of agricultural raw materials such as cotton, jute and oilseeds. The reduced incomes in the rural sector dimmed the prospects for expansion of demand for consumer goods. Also the increased prices of foodgrains compelled the urban consumers to divert a larger proportion of their income to food, leaving them with a smaller balance for non-food purchases. The need to set apart a sizable part of the budget for drought-relief, among others, necessitated the scaling down of development programmes by public sector agencies such as Railways, Central Water and Power Commission and other public sector agencies. This had an adverse effect on several industries like machine tools, railway wagons, wire ropes, steel structurals and commercial vehicles. The difficulties of industry were aggravated because of the fact that new capacity which had been planned for earlier under buoyant conditions came on stream just at the time when demand had begun slackening. As a result of these factors the rate of growth in industrial production showed a steep decline. While the early years of the third Plan had recorded a rate of increase of about 8 per cent per year in industrial production, 1966 showed only a marginal increase of one per cent. The position worsened still further in 1967, which registered a decline—although nominal of 0.5 per cent in the rate of growth.

Signs of Recovery

The Indian economy began to show some signs of recovery in the early part of 1968, which strengthened gradually through the year. This was due to several factors. The year 1967-68 turned out to be one of the best crop years in Indian agriculture. The rains were very good and in addition the efforts to make the Indian farmer realise the advantages of employing chemical fertilisers, sophisticated farm equipment and high-yielding varieties of seed appeared to have begun to succeed. This was reflected in a record production of 95 million tonnes of foodgrains during the year. There was also a noticeable increase in the output of commercial crops like oilseeds, raw cotton and natural rubber. Largely as a result of the improvement in the agricultural sector the national income increased by about nine per cent which is a record in recent years.

An encouraging sign which appeared in the Indian economy during 1968 was the appreciable record of achievement in the export sector. Exports during the first nine months of 1968 reached a record level of Rs 968.6 crores. This was higher by about 10 per cent than the exports in the corresponding period of the preceding year. It was also higher, by about three per cent, over the record of Rs 939.6 crores (in terms of the present rupee) which had been reached in January-September, 1964. Beginning with a decline of 3.7 per cent in the first quarter of 1968 exports recorded a sizable increase of 12.5 per cent in the second quarter and a still higher increase of 16.8 per cent was registered during the third quarter. Available information shows that the uptrend in exports continued even during the months of October and November, 1968. The period was also notable for the expansion in the exports of non-traditional manufactures and semi-manufactured goods. Exports of non-traditional items like iron ore, leather and leather manufactures, engineering goods, handicrafts, iron and steel, chemicals, etc., constituted as much as 42 per cent of India's total exports during the first 8 months of 1968. The significance of this would be appreciated in view of the fact that 15 years ago the share of non-traditional items in the total exports was as low as 21 per cent. Even between 1967 and 1968 the share of non-traditional items showed some increase; from 37 per cent during January-August 1967 it went up to 42 per cent during January-August 1968. The share of traditional items like tea, jute goods, cotton textiles, tobacco, raw jute, raw cotton, manganese ore, lac, etc., on the other hand showed a decline from 63 per cent to 58 per cent during this period. By and large, exports of engineering goods and iron and steel products recorded a heartening increase.

Impact on Industrial Production

These factors had their impact on industrial production during 1968. The general index of industrial production (1960=100), which is available for the first 8 months of the year, showed an increase of about six per cent over the corresponding period of the preceding year. The significance of this increase becomes apparent in the light of the depressing performance in the previous two years. While the rate of increase in the index during January-August 1966 had dwindled to a nominal 0.2 per cent, the same period in 1967 showed an actual decline, although nominal, of 0.9 per cent. While part of the increase in 1968 was accounted for by a small increase (4.9 per cent) in mining and quarrying and a much more substantial increase (15.7 per cent) in electricity generation, a large part of it was undoubtedly due to the manufacturing sector which accounts for the bulk of the index. The improvement in the manufacturing sector was the result of the sizable increases in several of the constituent groups such as beverages and tobacco industries (7.6 per cent), cotton textiles (10.4 per cent), woollen textiles (9.5 per cent), paper and paper products (13.7 per cent), rubber products (13.6 per cent), chemicals and chemical products (7.7 per cent), petroleum refinery products (11.7 per cent), copper smelting and rolling (31.7 per cent), aluminium manufacturing (21.5 per cent), brass manufacturing (40.2 per cent), non-electrical machinery (11 per cent) and electrical machinery (10.3 per cent).

It is significant to note that the recovery was noticeable not only in consumer goods industries such as beverages and tobacco industries, textiles and paper and paper products, but also in several intermediate products such as cotton yarn, automobile tyres and tubes, sulphuric acid, caustic soda, soda ash, aluminium and copper. The breakthrough in agriculture resulted in larger demand for fertilisers, pesticides and farm equipment which was reflected in the improvement in the output of these products. The larger availability of agricul-

tural raw materials such as cotton, oilseeds and natural rubber stimulated an increase in the output of the user industries. Several of the consumer industries emerged with larger demands partly on account of the increased incomes in the rural sector and partly owing to improvements in the export sector. Some industries such as the manufacture of petroleum products, caustic soda, soda ash, bicycles, radio receivers, electric fans, electric lamps and sewing machines were able to utilise existing capacity at a higher rate in order to cater to the increased demand.

There were, however, still certain areas where the recovery was halting or where recessionery trends still persisted. In particular this was true of industries which depend for their revival on a picking up of investment, both public and private. For instance, the demand for machine tools, though improving, was much below established capacity. Also, while there was some improvement in the placemept of new orders for machinery, the industry was still working below optimal capacity. Construction activity did not appear to have shown any marked uptrend mainly because of the lower tempo of public expenditure on construction and this was reflected in the demand for, and consequently the output of, cement which was almost stationary. Although machinery, both electrical as well as non-electrical had shown an increase in production, the rate of increase was still substantially lower than in the early 'sixties. The indices for some groups of industries such as jute manufactures, leather and fur products, metal products and miscellaneous manufacturing industries recorded a decline.

The table below sets out the production data in respect of major industries for the period 1961 to 1968:

PRODUCTION OF IMPORTANT INDUSTRIES — 1961-68

Industry	Unit	1961	1962	1963	1964	1965	1966	1967	Jan.-September	
									1967	1968
I. Mining and Quarrying										
Coal	'000 tonnes	56100	61548	66924	63996	69456	70536	71148	36854@	38260@
Iron ore	"	12276	13368	14928	14904	16800	19776	18912	14239	14680
II. Food Manufacturing Industries										
Wheat flour	"	1001	1202	1418	1570	1604	1490	1309	971	922
Sugar (Figures from 1961 to 1967 are for the period (November-October)	"	3029	2716	2153	2626	3260	3515	2147	1466*	1542*
Vanaspati	"	339	369	384	359	426	358	393	287	351
Tea processing	Million kg	354	348	346	373	366	375	374	280	285
Coffee curing	'000 tonnes	65.7	47.5	58.4	67.2	60.0	69.0	75.6	66.8	52.1
Salt	"	3481	3886	4544	4646	4715	4522	4488	4238	4513
III. Tobacco Industries										
Cigarettes	Million Nos.	39466	41124	40062	46196	54134	58513	54511	40776	45044
IV. Manufactures of Textiles										
Cotton yarn	Million kg	862	860	893	965	939	901	897	666	721
Cotton cloth:										
(i) Mill sector	Million metres	4701	4560	4423	4654	4586	4239	4098	3034	3315
(ii) Decentralised sector	"	2376	2412	2880	3072	3048	3096	3180	1775(A)	2029(A)
Manmade fibre (Fabrics produced on powerloom and handloom)	"	570	600	648	833	866	860	856	495(A)	548(A)
Rayon:										
(i) Viscose yarn	'000 tonnes	21.5	26.2	31.3	35.4	34.6	33.2	35.1	26.4	27.0
(ii) Staple fibre	"	26.0	32.4	32.2	36.8	37.2	42.4	52.1	40.7	44.6
(iii) Acetate yarn	"	2.0	1.4	2.0	1.8	2.0	1.6	1.8	1.3	1.4
Jute manufactures	"	997	1231	1324	1272	1330	1120	1157	880	852
Woollen Manufactures:										
(i) Woollen/worsted fabrics	'000 metres	13200	18288	20400	11718	9864	9389	8923	4734(A)	5191(A)
(ii) Woollen/worsted yarn	'000 kg	14640	18012	22728	20904	18132	16596	16656	9553(A)	10164(A)
V. Footwear & Other Wearing Apparel:										
Footwear of leather:										
(i) Western type	'000 pairs	6224	6511	8288	7792	9040	10120	10541	7950	7129
(ii) Indigenous type	"	4408	5286	5185	5962	6908	6734	7319	5665	6509
VI. Manufacture of Wood & Cork										
Plywood:										
(i) Tea-chest	'000 sq. metres	9036	9780	10404	9744	10272	9528	10644	7863	8737
(ii) Commercial	"	6312	7452	9804	10620	12480	12432	14208	10513	11585
VII. Paper and Paper Products										
Paper and paper board	'000 tonnes	364	388	463	491	537	585	609	450	471
Newsprint	"	25.7	24.9	30.4	28.8	30.5	29.3	31.0	23.4	23.1
VIII. Leather and Fur Products										
Tanned hides	'000 hides	3491	3828	4432	4206	4309	4222	4128	3086	2745
Leather cloth	'000 metres	7010	6659	6895	8990	9197	11898	11150	8610	9363

PRODUCTION OF IMPORTANT INDUSTRIES—1961-68 (Contd.)

Industry	Unit	1961	1962	1963	1964	1965	1966	1967	Jan. - September 1967	Jan. - September 1968
IX. Rubber Products										
Footwear (Rubber)	Million pairs	45.1	49.8	46.6	47.1	53.0	52.2	55.0	40.7	43.2
Tyres:										
(i) Automobiles	'000 Nos.	1562	1710	1926	2090	2354	2351	2476	1900	2225
(ii) Bicycles	„	11346	11940	14186	16156	18122	19639	22338	16872	18113
Tubes										
(i) Automobile	„	1484	1643	2029	2208	2365	2208	2754	2072	2214
(ii) Bicycle	„	12848	11562	13343	15193	17923	20449	19300	15398	13589
X. Chemical Products										
Sulphuric acid	'000 tonnes	422	469	568	680	678	675	804	568	598
Caustic soda	„	120	127	152	184	215	231	251	181	233
Soda ash	„	177	223	267	282	322	350	356	260	292
Chlorine liquid	„	33.9	37.9	44.2	49.0	51.0	63.0	78.1	56.1	70.9
Bleaching powder	„	7.1	6.7	7.0	7.9	7.4	10.8	9.3	7.0	7.2
Bichromates	„	5.2	7.0	6.9	7.0	6.9	6.9	6.9	5.0	5.8
Superphosphates (P_2O_5 content)	„	62.0	74.6	96.7	118.2	113.9	118.1	137.9	99.4	96.4
Ammonium sulphate ('N' content)	„	79.1	83.6	88.5	85.6	88.0	86.4	81.1	60.4	76.4
Alum (Ammonia)	„	4.8	4.1	3.7	1.9	1.9	1.7	1.0	0.7	0.3
Copper sulphate	„	4.3	3.9	3.7	4.8	3.3	3.6	2.7	2.2	1.3
Glycerine (refined)	„	6.1	7.5	7.2	7.5	7.7	7.4	8.5	6.2	6.8
Glue	„	1.9	2.2	1.9	2.2	2.5	2.6	2.4	1.9	1.4
Soap	'000 tonnes	149	152	164	158	164	170	177	131	136
Matches	Billion sticks	281	264	248	252	266	270	259	207	210
Paints	'000 tonnes	59	55	74	72	71	68	80	58	49
Power alcohol	Million litres	54	50	25	1.4	0.8	2.4	0.6	0.5	0.5
Indl. alcohol (rectified spirits)	„	51	61	114	161	185	189	128	110	124
Welding gases										
(i) Oxygen gas (B)	Million cubic metres	24.2	18.3	21.5	25.7	28.6	31.7	33.4	25.7	20.4
(ii) Acetylene gas	„	2.9	3.3	3.9	4.5	5.2	4.5	4.8	3.4	3.0
Liver Extracts:										
(i) Injection	Million C.C.	45.4	43.9	42.3	38.1	40.0	45.5	36.6	32.3	29.8
(ii) Oral	Tonnes	155	167	173	179	173	192	188	150	122
XI. Manufactures of Petroleum Products										
Petroleum products	'000 tonnes	6090	6584	7650	8429	8984	11114	13462	10011	11110
XII. Manufactures of Non-Metallic Mineral Products										
Refractories	'000 tonnes	627	671	654	688	688	722	748	560	506
Insulators:										
(i) H.T.	Tonnes	3353	4104	4250	6527	10070	10394	10668	8088	6840
(ii) L.T.	„	5392	5570	4351	3406	4172	3280	3536	2666	1830
Cement	'000 tonnes	8245	8587	9355	9690	10575	11057	11310	8422	8700
Asbestos cement sheets	„	213	134	308	366	421	294	250	187	182
Grinding wheels	Tonnes	2050	2269	2791	3262	4027	4475	4333	3439	2703
Coated abrasives	'000 reams	149	186	181	172	178	174	180	142	108

PRODUCTION OF IMPORTANT INDUSTRIES—1961-68 (Contd.)

Industry	Unit	1961	1962	1963	1964	1965	1966	1967	Jan. - Septemb 1967	Jan. - Septemb 1968
XIII. Basic Metal Industries										
Pig Iron**	'000 tonnes	4988	5796	6604	6593	6952	7044	6868	5176	5210
Finished steel	,,	2798	3564	4258	4342	4519	4472	4111	3137	3418
Aluminium	Tonnes	8382	35212	55144	55054	59513	63432	96430	69545	86877
Copper	,,	8746	9781	9587	9455	9360	9362	8904	6430	6658
Lead	,,	3664	2849	3535	3624	2384	2543	2473	1775	1131
XIV Manufactures of Metal Products										
Screws										
(i) Wood	Million Nos.	1500	1477	1414	1546	1789	1700	1741	1296	991
(ii) Machine	,,	381	425	421	502	469	599	658	494	345
Razor blades	"	770	625	841	892	931	906	780	628	603
Hurricane lanterns	'000 Nos.	5540	5674	5250	5303	5636	5140	4762	3791	2130
Crown corks	Million Nos.	873	698	770	890	1012	1142	1321	1045	927
Thermos flasks	'000 Nos.	1541	1542	1954	1910	2034	2693	3102	2372	1645
XV Manufacture of Machinery Except Electrical										
Tractors	Nos.	1600	1632	1632	2712	6312	7608	11040	7770	9771
Diesel engines:										
(i) Stationary type	'000 Nos.	44.5	42.6	55.5	70.1	87.9	107.0	114.9	87.5	82.7
(ii) Vehicular type	,,	9.8	8.4	9.0	8.2	8.7	7.0	3.3	2.6	1.9
Cotton textile machinery	Rs lakhs	1148	1398	1892	2142	2402	1893	1531	928(A)	701
Machine tools (incl. portable tools and accessories)	,,	852	1182	1799	2374	2850	3395	3102	2446	1888
Power driven pumps	'000 Nos.	127	130	161	174	226	294	312	245	195
Ball bearings	,,	3216	3906	4954	5885	8250	9199	10074	7374	8727
Sewing machines	,,	317	343	346	255	422	411	366	278	316
Typewriters	,,	31.1	36.3	42.4	44.0	41.1	41.5	47.0	37.0	33.8
Twist drills	,,	2736	3785	4680	6738	8140	7600	6850	5531	6396
Sugar mill machinery	Rs lakhs	467	643	574	807	794	859	881	746	801
Tea processing machinery	,,	175	161	162	85	120	116	93	70	140
Cement mill machinery	,,	91	71	99	214	491	555	646	474	647
XVI. Manufacture of Electrical Machinery										
Power transformers	'000 KVA	1796	2307	2629	3312	4319	4794	5254	3994	3450
Electric motors	'000 H.P.	829	936	1188	1314	1702	1985	2074	1590	1451
Dry batteries	Million Nos.	214	239	276	287	301	328	317	230	301
Storage batteries	'000 Nos.	521	566	691	767	745	720	799	590	650
Electric lamps										
(i) GLS & Others	Million Nos.	45	55	67	67	67	74	74	57	61
(ii) Fluorescent lamps	'000 Nos.	1895	3175	3638	3439	4178	4060	5369	4096	5300
Electric fans	,,	1073	1129	1139	1085	1448	1292	1381	1060	1097
Radio receivers	,,	326	343	419	475	584	713	854	611	951
House service meters	,,	633	878	1194	1331	1101	1046	925	696	814
Domestic refrigerators	Nos.	9720	13020	21192	30000	30912	38124	39804	30269	38957
Room air-conditioners	,,	12468	13452	10476	10296	11376	17928	18264	15568	11986
Cables and wires										
(i) Bare copper conductors	Tonnes	7632	5944	4392	5736	3768	2160	852	626	765
(ii) ACSR	'000 tonnes	22.4	28.7	32.9	46.5	42.1	48.5	50.2	50.7	44.3
(iii) Winding wires	Tonnes	5664	6804	7932	8052	9588	9636	13296	10432	9702
(iv) VIR & PVC	Million metres	210	276	321	338	390	379	371	280	276
XVII Transport Equipment										
Automobiles	Nos.	54312	57744	52256	67140	72588	72396	70356	52844	58008
Motorcycles	,,	9084	9552	9456	13869	21360	24024	23316	17544	20606
Scooters	Nos.	15336	14316	15420	20040	20244	20652	30696	22099	27539
Three-wheelers	,,	1272	1428	1704	2496	1884	1188	3996	2739	3072
Bicycles (complete)	'000 Nos.	1049	1116	1166	1380	1548	1670	1704	1317	1394
XVIII Electricity Generated										
Electricity generated	Million KWH	19111	21473	24791	28528	31378	34148	37902	27901	32196

@ Relates to January-June period.
* Relates to January-September period.
(A) Relates to January-July period.
(B) From 1962 onwards production figures of oxygen exclude the quantity used by steel factories, Relate only to the quantity used for welding and cutting.
** From 1962 production figures are inclusive of direct castings.
Billion = 1000 million.

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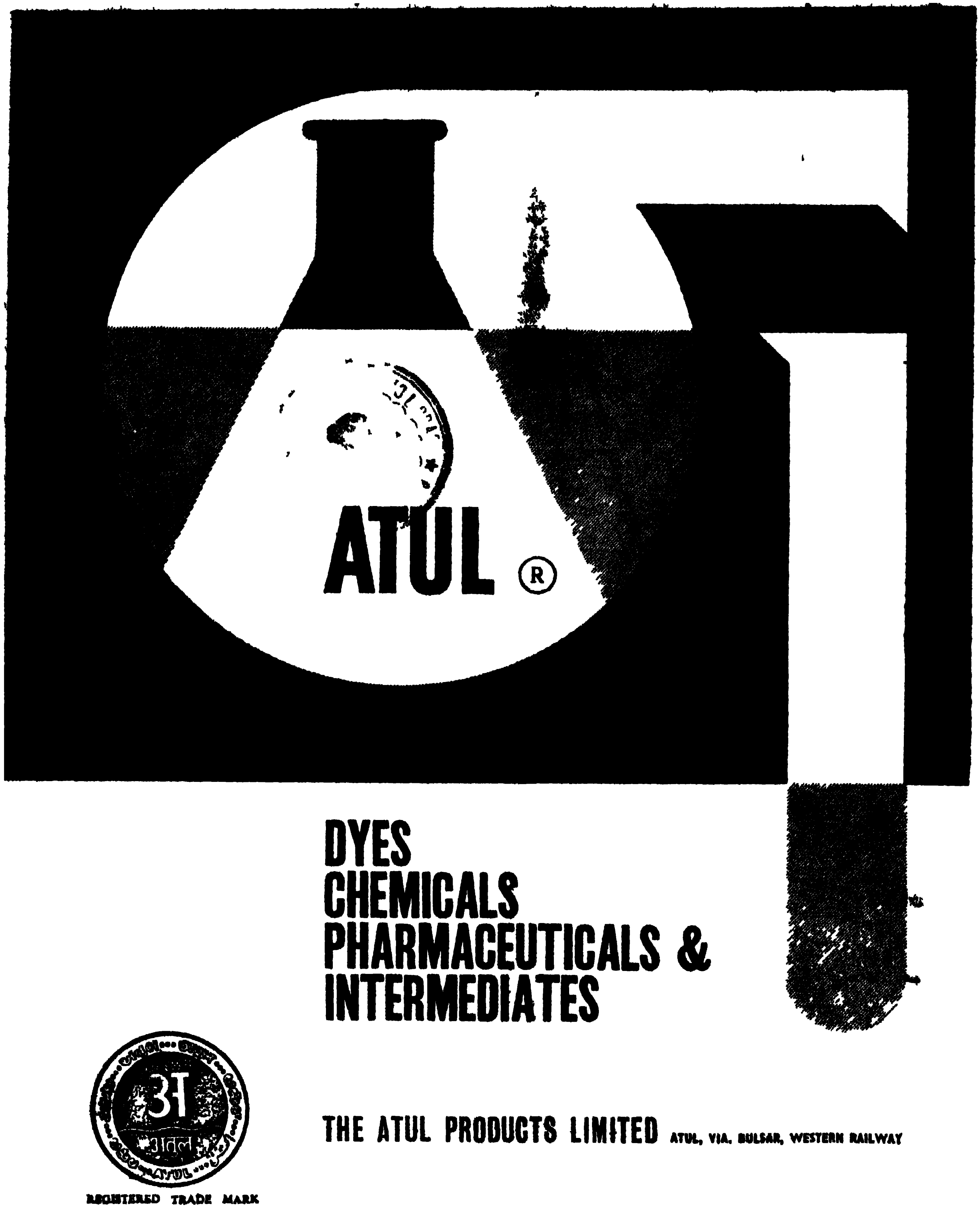

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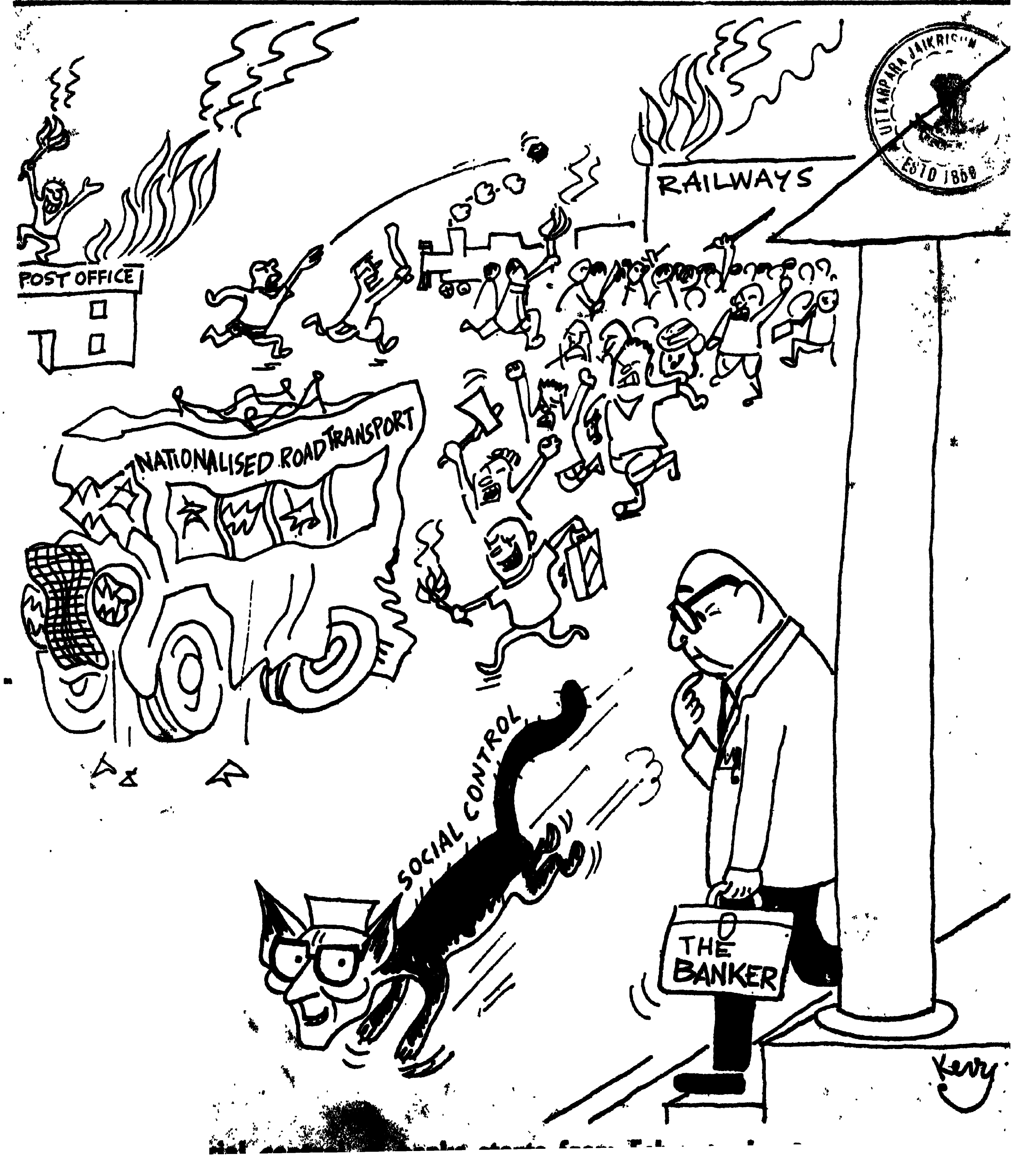

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Enter the "Nixson" Years

THE US presidency has been described as the most powerful public office in the world. This, perhaps, it is not, for the simple reason that in the democratic nation of the United States power is vested firmly in the people. Incidentally, it was to this ultimate power that one of the most determined men ever to occupy the White House bowed when President Johnson, as he then was, announced in March 1968, his decision not to run for a further term.

Though not the world's most powerful office, the US presidency is undoubtedly one of the world's key influences for good or ill on the affairs of nations and the lives of peoples across the globe. The man who is president of the United States has the authority to act in the name of what is militarily the strongest nation in the world and, at its bid, he could also back his acts with the resources of the most abundant and one of the most dynamic economic systems that the history of man has seen. Hence, indeed, the transfer of government from one administration to another in Washington last week was more than a remote quinquennial ritual of purely American concern.

The American people have voted themselves a change of party and persons. They seem to have done this more because they were tired of the old than because they have faith in the new. Quite possibly, a larger world expects even less by way of innovations from this change in administration in Washington than the Americans themselves do. Indeed, ever since Mr Richard Nixon emerged as the Republican contender and the most likely national choice for the presidency, the expectation has been that the difference between the incoming administration and the outgoing one would be one of style rather than of substance.

In other words, the belief has been that the consensus which Mr Lyndon Johnson so feverishly pursued and which so relentlessly defied him in the nation may, ironically enough, be his in terms of the man from the rival party who has supplanted him in the White House. Reading together the State of the Union Message of the retiring president and the inaugural address of his successor, we are tempted to agree that there could well be a basic continuity in policy which ought to gladden the heart of the retreating Texan as he withdraws to his native homestead to recollect the events of his presidency in a mood more or less of tranquillity.

It is evident from President Nixon's inaugural address that the core of his intentions is peace through negotiations. It was equally obvious in the years of the Johnson presidency that every step he took in escalating the war in Vietnam for the failure of which he had to pay with his presidency was motivated by his declared intention to bring the foe to the conference table so that there could be negotiations for peace. There is, however, this distinction between the two presidents that whereas the peace which Mr Johnson sought was a political settlement shaped out of a military victory, the peace that Mr Nixon may settle for will be a political agreement snatched from a deadlocked war which the American people devoutly desire to be done with.

The principal assignment which Mr Nixon has given to himself, which is the winding up of the hostilities in Vietnam, is thus not exactly an inspiring one. Few salvage operations are. Nevertheless, salvage is often necessary and occasionally even imperative for survival. Peace in

Vietnam is one such imperative, not merely for the convenience of the Nixon administration, not only for the comfort of the American nation, not even purely for the life and livelihood of the people of Vietnam, but also for the future of a world in which co-operation, not simply co-existence, among countries and the governments is becoming more and more a condition for the preservation of the human race and the progress of the human family.

It is, therefore, important for all of us and not merely for Mr Nixon's natural dream of a great presidency that he should succeed in taking Washington out of Vietnam so that he may throw it into a wider world where the resources and enterprise of the United States could lead the creative forces of the world community in extending the dimensions and improving the quality of life of all people. To the Nixon days ahead we, therefore, bid welcome and, since we may not forget the Johnson days from which they take off, we would name and greet them as the "Nixson" years.

Enthusiasm for Exports

THE DECISION of the Government of India to award shields and certificates of merit to outstanding exporters is likely to provide a further impetus to export promotion. The eligibility for these awards will be based on such considerations as substantial increase in export sales on a sustained basis, successful introduction of a new export product, export to specially difficult markets, recovery of lost ground in export markets, novel solution to foreign trade problems, and market surveys leading to a significant increase in exports. Public recognition of excellence in exports has been a practice in the developed nations for many years.

It is necessary however to stress that the scheme to give awards will prove really effective only if the export policies become more helpful. It is estimated that at present out of over 4,500 production units in the organised sector, the bulk of the exports is made only by about 125. It must be the objective of the government not only to encourage existing exporters but also to bring within the export fold as many new firms as possible. But these firms are unlikely to take to export merely because of the attraction of awards. They will do so only when they are convinced that export is really profitable. The success achieved by Japan, West Germany, the UK and other developed countries in export promotion is largely due to the fact that their governments have made export attractive not merely by giving effective incentives but also by adjusting their economic policies so as to enable their industries to achieve economies of scale and compete successfully in world markets.

The export promotion schemes now in operation in our country are meant to help industries to recoup the loss they incur in selling their goods abroad. But responsible industrial organisations feel that the implementation of many of these schemes is far from satisfactory. A major complaint is that there is inordinate delay in getting the cash assistance and the duty drawbacks. On January 10 this year, exporters of Gujarat told the Deputy Chief Controller of Exports and Imports at a meeting in Ahmedabad that there were excessive delays in sanctioning cash assistance and that if this trend continued, they would cease to have faith in the proclamations of government and lose interest in exports. The President of the Chemicals and Allied Products Export Promotion Council said recently that it took "several months" to obtain refunds of duty drawbacks; he suggested that a time limit should be fixed for the refund of duty. The Government of India since then is reported to have decided, on the recommendation of the Committee on Drawbacks, to refund duties automatically on exports. It remains to be seen to what extent this decision will help in ensuring prompt payment. There are also other fields where delay has been not only holding up exports but also creating frustration among businessmen. For example, it was recently reported that a prominent woollen manufacturing unit in Maharashtra was threatened with closure because of the delay in getting licences for importing raw wool.

There is at present a good demand for Indian ropes from the countries of West Asia and the Far East but the industry is unable to step up exports because of the scarcity of manila and sisal fibre for which it has to depend entirely on imports. There are also many other instances where the red tape has effectively deterred exporters.

The present plight of the traditional industries is a sad commentary on the export policy and intentions of the Government of India. The jute industry has practically lost its sacking markets while the demand for its other products except carpet backing has shrunk sharply. Mr Manubhai Shah also has endorsed the industry's plea. In his speech at the annual meeting of the Iron and Steel Scrap Association of India in Calcutta on January 15, Mr Shah said that export of jute goods could fetch 50-60 crores of rupees more if the export duties are properly readjusted. The export earnings of tea also could be stepped up by reduction in export duties and refund of excise. Whether the Government of India gives further relief to these industries or not, so long as traditional exporters find it hard to sell and are actually incurring losses, newcomers are unlikely to enter the export field with enthusiasm. They would prefer to sell in the vast, expanding and profitable home market rather than in the countries situated far away. No amount of exhortations or threats or temptations will help our country to achieve success in a big way unless the exporter is convinced that selling his goods abroad will be really worthwhile for him from the financial point of view.

Public Relations for West Bengal!

AT THE conference on betterment of Calcutta held recently under the auspices of the Indian Chamber of Commerce, a suggestion was made that the Government of West Bengal should carry out a public relations campaign to persuade entrepreneurs in other parts of our country to invest in this state. Other state governments, especially Maharashtra, Mysore and Andhra Pradesh, have been actively trying to woo investors by giving them a variety of incentives and publicising them widely. Their chief ministers have been going round the country, meeting prominent industrialists and persuading them to invest in their states. The concessions offered or promised include subsidy towards the cost of preparing feasibility studies, relief from electricity duty, sales tax, octroi and water tax, preference in the government's purchase programme for their products, facilities for land acquisition, and help to get licences for raw materials through their own liaison machinery in New Delhi.

The new government to be formed in West Bengal next month will perhaps consider to what extent and in what manner it should give incentives for investment and publicise them. But does it not seem strange that, of all the states, West Bengal should have to conduct a public relations campaign to attract investors? West Bengal was the pioneer in the industrial development of the country. Long before the very concept of public relations was developed, this region had attracted investors not only from all parts of India but even from foreign countries. At the time of the outbreak of World War II, over half of our joint stock companies engaged in manufacturing, tea plantations and coal mining were situated in the then Bengal province and it accounted for about 55 per cent of the total paid-up capital in the large-scale industries in the country. After Independence also, the industrial development of West Bengal progressed rapidly though not on the scale envisaged by the government or at the rate required to provide employment to the increasing population. Many new industries came into existence such as steel, locomotive, automobile, glass, paper, paint and cables. Among the factors which attracted these industries were the easy availability of labour, banking and marketing facilities, and proximity to the Calcutta port.

In the last few years, however, West Bengal seems to have attracted fewer entrepreneurs. This will be clear from the fact that the number of industrial licences issued in this state was only 42 in 1967 compared to 43 in 1966, 64 in 1965, 143 in 1964 and 183 in 1963. Between 1952 and 1967, Maharashtra accounted for the largest number of industrial licences, numbering 3,084 compared to West Bengal's figure of 1,854. The data for 1968 are believed to have shown no improvement in this respect. Also significant is the fact that the number of newly registered companies in West Bengal declined from 360 in 1964-65 to 248 in 1966-67 and 215 in 1967-68. The factors responsible for this declining trend in industrial activity include labour indiscipline, lack of good roads and communications, the high cost of the Calcutta port and its inability to cope effectively with the increasing volume and variety of traffic. The nine-month rule of the United Front government has perhaps done more damage than anything else to the state's industrial growth by encouraging directly and indirectly gross indiscipline, often accompained by violence, among workers. It is significant that of the 10 million man-days lost in the whole of our country in 1967 as a result of labour disputes, Calcutta accounted for six million. The *New York Times*, in its issue of the October 10, 1968, wrote as follows: "The industrialists have their jackets and ties back on now, but they don't imagine they have seen the end of anarchy here. They know as well as anyone that the mood of their workers is still on the far side of desperation. Rather than bend their minds to the problem of reversing the tide, they vow not to make any new investments here. Calcutta, they say, is as good as dead".

The *New York Times* may be correct in saying that Calcutta's industrialists are apprehensive of the anarchic conditions in West Bengal but is surely wrong in suggesting that they have considered Calcutta "as good as dead". On the other hand, Calcutta's industrialists in recent months have been taking more interest than ever before in the betterment of the city. They do so not so much because of their substantial investments in this region but because they feel that to neglect Calcutta will mean disaster not merely for West Bengal and the eastern region but for the whole country. The effective defence and development of our country need a peaceful and prosperous Calcutta.

The industrial prospects of West Bengal will, of course, depend largely on the kind of ministry that comes to power next month. But irrespective of its character and composition, the central government must take certain steps to create congenial conditions

for the development of this part of the country. For example, the improvement of Calcutta port will considerably help to speed up the economic progress of West Bengal. It has been pointed out that because of the high costs of Calcutta port and the lack of proper facilities, traffic in certain commodities such as oilcakes, rice bran, mineral ores and sugar is being diverted to Bombay, Kandla and Visakhapatnam. Calcutta port is said to have become uneconomic to the trade because of the steady increase in various types of port charges, lack of modern equipment to handle the changing variety of cargo, silting up of the Hooghly, absence of warehousing facilities, low labour productivity and also pilferage on an increasing scale. The problems of this port have been examined by many committees but New Delhi has been slow in implementing their recommendations. The centre should not hesitate to allot sufficient money either from PL 480 funds or from other sources for Calcutta's improvement. Another measure that the centre could take to help West Bengal is to be more sympathetic towards the jute industry which plays a crucial role in providing remunerative employment to several million people.

West Bengal has considerable scope for further industrial expansion. The National Council of Applied Economic Research in a survey in 1962 recommended the establishment of a number of new industries in West Bengal, including cotton mills, sugar mills, dairy farm units, pulp plants, cement factories, and many industries in the field of chemicals and engineering. Though the Council's estimates of costs and capacity may need revision, there is no doubt that the opportunities for industrial growth are substantial. It may not be necessary at all for West Bengal to launch a public relations campaign if only it succeeds in getting a strong and stable ministry which will be able to maintain peace in the state. It is encouraging to note that last week the organisations of employers and workers in West Bengal were able to come to an agreement to set up a tripartite machinery to review cases of mass retrenchment. This body will have three representatives each, representing employers and workers with a sitting or retired high court judge as chairman. To what extent the formation of this machinery will help to improve industrial relations remains to be seen. But if organised labour will conduct itself with a sense of responsibility in the coming months, irrespective of whichever party comes into power in the mid-term elections, West Bengal can look forward to a new phase in its industrial expansion.

Between Two Stools

THE FIFTH Finance Commission, which had discussions with the representatives of the state governments of Tamilnadu, Mysore and Kerala recently, should have been set athinking about how it could reach a happy solution over the devolution of revenues to the states from the centre as no other commission in the past has been obliged to look at this problem so closely for satisfying the demands of the states for a larger share of the central cake. It is true that almost every one of the four earlier commissions decided upon a larger transfer of tax revenues from the centre and attempts have been made to satisfy also the claims of backward states for special treatment. But on no former occasion has there been such an insistent demand that the states should be allowed to have greater elasticity in their sources of revenue and they should not be compelled to raise resources of their own in a big way because the saturation point had been reached in respect of fresh taxation in many directions. To put it simply, the states have been asking for a rescheduling of debt repayments and interest charges, larger grants for backward areas and metropolitan development and a bigger share in the revenues from income-tax and excise duties. The Fifth Finance Commission will be submitting its final report before July this year and it remains to be seen how successful it proves in reconciling the conflicting approaches of the central and state governments.

The Tamilnadu government urged on the Tyagi Commission, during its discussion, that there should be a rescheduling of debt repayments and interest charges with a classification of the loans on a purpose-wise basis. It has been suggested that the loans granted by the centre for constructing irrigation and power projects should be repayable over a period of 20 to 25 years as debt charges on central account are constituting as much as a third of the total receipts from the centre, thereby reducing the effectiveness of central assistance. It was also represented that the pool of divisible resources should be widened with the inclusion of corporation tax and the abolition of the distinction between special excise duties and basic excise duties. The proceeds from the corporation tax and special excise duties are not now included in the pool for determining the states' share of tax revenues. As it will be necessary to amend the Constitution for this purpose, it has been urged as an interim measure that there should be a larger transfer of revenues from income-tax and excise duties. The Tamilnadu government is against an enlargement of the list of additional excise duties because, in its opinion, an enlargement affects the elasticity of revenue from sales tax.

The Mysore government has its special problems as it has been experiencing considerable difficulty in repaying debts and paying interest charges on account of the long gestation period of many of its big projects. The grant of additional dearness allowance to its employees also has neutralised the efforts to raise fresh revenues and it is feared that in the absence of a generous support from the centre for implementing its fourth Plan no appreciable headway can be made in 1969-74. In order to impart elasticity to the state budgets, the Mysore Finance Minister also has suggested that a bigger proportion of receipts from excise duties,

income-tax including corporation tax and estate duty should be transferred to the states. It has been pleaded at the same time that new big projects should be centrally financed and that special consideration should be given to its backwardness, the necessity to develop the areas which are affected frequently by drought and the compulsion to increase the state's irrigated acreage.

The Kerala government's approach to the whole problem, as is to be expected, is entirely novel and revolutionary. It has argued that the whole concept of devolution of revenues is faulty and the principles now governing the distribution of tax revenues and grants encourage only the developed areas and over a period widen the gap between them and the backward areas. It has, therefore, been represented that the method of determination of grants should be entirely recast so that the gaps in non-plan budgets, after the state governments had made sincere efforts to raise larger revenues, are filled by the grants from the centre. Since backward areas have to be helped to develop their resources and overcome the disparities in respect of economic development and income, the case has been put forward that the devolution of revenues should not be on the basis of population alone, but should take account of the backwardness of the areas and the gap between the regional per capita income and the all-India per capita income. Thus, it has been emphasised that when proceeding to distribute the share of excise revenues 50 per cent of the proceeds should be distributed on the basis of population, 30 per cent on the basis of fiscal requirements of each state, 10 per cent to those states whose per capita income is below the all-India average and the remaining 10 per cent on the basis of per capita state taxes in relation to per capita income. As regards the pool of divisible resources, the memorandum has stated that pending the inclusion of the revenues from corporation tax, the share of income-tax receipts available to the states should be raised to 90 per cent from 75 per cent and those from excise duties to 50 per cent from 20 per cent.

Many other state governments should be arguing on similar lines and the burden of the theme in every case will be for a rescheduling of debt repayments and interest charges and a larger transfer of tax revenues from the centre. The Tyagi Commission is reported to be convinced about the need for rescheduling debt repayments and interest charges as the burden is heavy in respect of states such as Andhra Pradesh and Mysore. But the problem could be made less difficult if the states realised their responsibilities for making a financial success of the irrigation and power projects. Some projects, which cover social services and provide educational facilities, cannot, of course, be financially viable. But there is no reason why irrigation schemes and power projects cannot be made to function in such a way that depreciation and interest charges are fully recovered and a reasonable return on investment also secured. There has been no attempt so far to find out how newly created irrigation facilities have resulted in the conferment of greater benefit to the cultivators and to what extent it would be possible to raise water rates, levy betterment fees, land taxes, etc. In an anxiety to reduce the burden on smaller land holdings for vote-catching purposes, the cost of new amenities has been overlooked and many states have got into difficulty because of their refusal to remove the subsidy involved in supplying power for agricultural purposes.

During the period of transition and development a rigid approach cannot be adopted. But once the benefits begin to be reflected in greater production and higher incomes there is no justification for continuing the subsidies. Again, the delays involved in developing land under the command of new irrigation projects and the utilisation of generating capacity have resulted in heavy losses as has been experienced in regard to the development of areas under the Tungabhadra project and the erection of generating sets in the Sharavathi project. In spite of the fact that the Sharavathi project was inaugurated a few years back, no proper arrangements had been made for utilising the generating capacity already installed and for expediting the installation of the remaining sets. If adequate attention had been given to the construction of transmission lines, energisation of tube wells and development of rural electrification, there would have been no difficulty in using the generated power. The same problem is confronting Kerala in regard to the Sabarigiri project. Tamilnadu probably has acquitted itself creditably with the efficient use of irrigation potential and power sources. But it is also frittering away its resources on subsidising rice sales and consumption of power for agricultural purposes. If these special problems are properly tackled there will automatically be a significant increase in revenues from state undertakings. The centre, too, has a special responsibility for realising larger revenues from the public sector projects as the huge investment has not been productive so far. Between the railways, the public sector steel plants, the heavy electrical units and other undertakings the generation of resources can be such as to enable these projects to undertake expansion schemes with their own resources.

These efforts will necessarily take some time to yield results. The Commission should nevertheless clearly impress upon the central and state governments the need for observing financial discipline and for making the best use of available resources. There will, of course, have to be an increase in the share of income-tax revenues to 80 per cent from 75 per cent and excise duties to 25 per cent from 20 per cent. There may even be a higher share of excise revenues, say of 30 per cent, if the state governments are agreeable to the centre effecting a corresponding reduction in its assistance to the states as there will necessarily be a diminution of the resources of the centre with a transfer of larger revenues to the

states. The centre should also be agreeable to a rescheduling of debt repayments and interest charges though this might create difficulties for it to meet its obligations. While the gap created by a rescheduling of debt repayments can be met through credit creation temporarily, it will be necessary to appoint a special body to examine the functioning of the various projects and suggest appropriate remedies. The Tyagi Commission is thus faced with the unenviable task of pleasing the centre as well as the states. But there is no doubt that greater elasticity will have to be imparted to the state budgets with reduced reliance on central assistance. The latter should be used, after some time, mainly for eliminating the backwardness of particular regions and for integrating the economy into a well-knit whole.

Unmitigated Malice to Cotton Mills

THE NEW year has certainly not begun well for our cotton mills industry which has been passing through a severe crisis. Today, as many as 80 mills are remaining closed, while over 80,000 workers have been thrown out of employment. Ill luck continues to dog this already bedevilled industry.

Three developments that adversely affect the cotton mill industry have followed in quick succession over the past few days. In the first place, the British government rejected outright our request for exemption of our cotton textile exports from the import deposit scheme recently introduced by it. Secondly, the Government of India issued an ordinance to amend the Payment of Bonus Act whereby the available surplus (as per amended Section 5 of the Act) has to be computed in such a way that the amount of tax rebate accruing to the employers on account of the bonus paid or payable under the Act also becomes a part of the available surplus of the succeeding year, unlike hitherto when it used to accrue wholly to the employer and did not require to be shared with labour. The third, and what mill circles fear might prove fatal, is the reported acceptance by the Government of India of the majority recommendations of the Second Wage Board for the Cotton Textile Industry involving an additional wage burden to the industry of some nine crores of rupees per annum. The decision of the government to this effect, however, is still to be announced, but it is on the cards all right.

If the press reports turn out to be correct, the conclusion is irresistible that here is a case of government's unmitigated malice to mills. Any decision such as the one reported which would surely ruin the cotton mill industry cannot but be described as malicious. It is not necessary to go into the causes contributing to the impending catastrophe to the cotton mill industry, but it is imperative to examine the position of the industry today and that at the time when the first wage board for the industry made its report. If the industry is to be called upon to shoulder any additional wage burden, the natural presumption is that its position has perceptibly improved since then. But has it?

According to the spokesmen of the industry, between 1962 and now, the cost of production has gone up by anywhere between 38 per cent and 43 per cent while, over the same period, cloth prices have risen by only 22 per cent. Thanks to the fantastic rise in dearness allowance, the total emoluments of a mill worker *i.e.,* basic wages *plus* dearness allowance, have gone up from Rs 136 in 1962 to Rs 220 in 1968 in Bombay, from Rs 127 to Rs 210 in Ahmedabad, from Rs 119 to Rs 180 in Madras and from 103 to Rs 169 in Kanpur, to take only a few cotton mill centres. During this period, the price of the basic raw material —cotton—also has gone up appreciably. And more than anything, the excise duty has simply soared.

It is pertinent at this point to recall what the first wage board had stated when it recommended a scale of wages in an effort to go the farthest it could on the road to a need-based wage, as the board itself put it, especially its considerations about the future prospects of the industry on the basis of which it decided to do so. First, the first wage board expected the total demand for cotton textiles, both domestic and export, to cross the 9,100-million-metre mark by 1965-66. Secondly, the board was of the considered opinion that cotton textiles were in no immediate danger of competition from man-made fibres. Thirdly, as a result of rehabilitation, modernisation and rationalisation, the board had expressed the hope that there would be greater productivity. Finally, the board had made a specific reference to a government proposal to come to the aid of the industry in a big way. Let us examine how each one of these has turned out to be in the event.

To take the demand for cotton textiles first. The 9,100-million-metre mark for the total demand for cotton textiles was not only not reached in 1965-66; even in 1967 the total production itself, of cotton textiles in all the sectors, amounted to no more than 7,300 million metres! And, even so, the mill industry experienced considerable difficulty in disposing of its reduced output.

Secondly, the confidence of the first wage board that cotton textiles were not in any danger of competition from man-made fibres was too short-lived, if not totally belied. The total production of man-made fibres actually shot up from 400 million metres in 1958 to 881 million metres in 1967. Along with this increased production, it has also been established by a market research undertaken by the Textiles Committee, man-made fibres have, in fact, started cutting into the consumption of cotton textiles.

Similarly, the hope of the first wage board about

rehabilitation, rationalisation and modernisation, or the consequent improvement in productivity, also failed to materialise. In spite of the increased processing of textiles, the wage bill as a percentage of the total cost bill has gone up from 23 per cent to over 28 per cent. Higher productivity seems to be still eluding the industry in several cases.

Lastly, far from getting any big assistance from the government, the cotton mill industry finds itself smothered and caught in a vice as it were between the ever-rising excise duty, on the one hand, and the fixation of uneconomic prices for controlled cloth, on the other. Whatever solicitude the government showed has been, the mill interests complain, to the worker by way of higher dearness allowance, to the cotton grower by way of enhanced prices and to the consumer by way of prices below cost for controlled varieties of cloth. If, in this pentangular pastime, four parties have benefitted, the deduction follows that it could be only at the cost of the fifth party, the cotton mill industry, as witness its chaotic and crippled financial condition today.

From all that has been said so far, no one need rush to the conclusion that mill interests are opposed to higher wages. Their only contention—and this is understandable, especially in the context of the economic conditions obtaining presently in our country—is that workers should aspire for a higher standard of living by achieving higher productivity. This is the only way in which they can help themselves without, at the same time, harming other interests in the country, and what is not perhaps generally appreciated is they can do so even as things stand today. In fact, the prevailing wage structure in the cotton mill industry provides for payment of higher wages to an employee who takes on a larger machine assignment and thus demonstrates he has improved his productivity.

In conclusion, it is perhaps permissible to ask the second wage board the principles governing their reported recommendations. For these do not seem to follow either the principles in this behalf laid down by the Supreme Court or the recommendations of the ILO experts on the fixation of a minimum wage with special reference to developing countries. Had only the second wage board fixed minimum wages on the latter basis and built up thereon a wage structure for different textile centres after taking into account such scientific principles as job analysis and time and motion studies, it would have arrived at conclusions at once acceptable and unassailable.

Weavers Have the Upper Hand

THE DECISIONS of the Government of India bearing on industries are either panicky or procrastinated, and neither is good either to the industry concerned or to the economy of the country as a whole. The latest reported decision of the union Ministry of Commerce to import rayon yarn falls under the former category. Otherwise, it is difficult to appreciate such a decision when the Tariff Commission is already seized of the question of fair prices of all types of man-made fibres generally and has been asked to submit an *interim* report on rayon yarn prices in particular. Evidently the authorities are being stampeded to act, in the way as reported in the press, by the hue and cry of art silk weavers generally and those of Amritsar in particular.

The allegations of the art silk weavers of Amritsar include the charges (i) that the prices of viscose filament yarn have gone up considerably, especially lately, (ii) that the spinners are selling through dealers and distributors and are indulging in unhealthy trade practices, (iii) that there is considerable idle capacity in the weaving sector, and (iv) that there is a wide disparity between the prices in this country and international prices. If the version of the art silk weavers is to be believed—and they certainly appear relatively more plausible, backed as they are by relevant facts and figures—none of these allegations stands scrutiny.

There are both official and market prices for viscose filament yarn and the official prices are always slightly lower than the market prices. Taking the higher of the two, that is market prices, the trend over the last three years does not bear out the charge that viscose yarn prices have gone up considerably. In 1966 (pre-devaluation), the price per kg of 120 bright denier (first quality) fluctuated between Rs 13.27 and Rs 15.19 (inclusive of excise duty: Rs 2.65); in 1967, it varied from Rs 13.91 to Rs 15.58, and, in 1967, it ranged from Rs 14.69 to Rs 16.03 (inclusive of excise duty: Rs 3.95). It is thus seen that not only is the net selling price today lower at Rs 11.48 (even if the December 1968 quotation is taken, it works out to only Rs 12.08) compared to the corresponding pre-devaluation net selling price of Rs 12.50, but the range of fluctuation also has steadily narrowed down from Rs 1.92 in 1966 to Rs 1.67 in 1967 and to Rs 1.34 in 1968. In view of this, one would like to know the basis on which the Amritsar weavers have made their allegation of an 80 per cent rise in viscose yarn prices over the past three years.

Another allegation of the Amritsar weavers is that the spinners are selling through dealers and distributors i.e., the traders, and are indulging in unhealthy trade practices. Our enquiries show that the general practice among the spinners is to announce periodical sales at specified prices that hold good for a particular period and that during such sales weavers are given the first preference to book orders. Only after the

close of the specified period, it is said, the spinners dispose of what is not so booked by the weavers to dealers and distributors. Further, during the sales period, it would appear, traders are not only not prevented from booking orders but are also offered the same prices as weavers. It thus seems weavers have ample opportunities to book their requirements at widely publicised prices but some of them tend to postpone purchases for some reason or other, not excluding the hope that prices would go down if and when imports are allowed. After the sales and in between sales, weavers, if they require yarn, have necessarily to go to traders (dealers or distributors) and pay the prices the latter charge which is, of course, what they feel the circumstances prevailing at any given time warrant. If these prices are inconvenient or unremunerative to weavers, they have themselves to thank for it. This is all the more so because, it is said, they failed to take advantage of the offer made by the two leading spinners, *viz.*, National Rayon and Century Rayon (between them, these two units sell 20 per cent to 25 per cent of their production to Amritsar weavers), at the instance of the Ministry of Commerce and the Textile Commissioner, to sell yarn in bulk quantity at mutually agreed prices to a Punjab corporation.

It is absurd to compare domestic prices of viscose yarn with international prices and to blame the spinners for the difference, for it is well known that every country has two prices, one for the internal market —the domestic price—and another for the export market—the international price—, the latter of which is always lower. It would, however, be right to compare domestic viscose yarn prices in different countries and to find out how our domestic prices compare with those of other countries producing viscose yarn. Such a comparison places our viscose yarn producers in a very favourable light indeed. Thus, exclusive of excise duty, the price per kg charged by our spinners of Rs 11.48 compares with Rs 11.74 in Italy, Rs 13.47 in the UK and Rs 15.38 in the USA. Small wonder then that our viscose yarn manufacturers should make the claim that very few industries in this country can assert that their domestic prices are lower than those ruling in foreign countries.

One more or less general (and not confined to the Amritsar weavers only) assertion is that, inasmuch as viscose spinners now receive actual users' licence for pulp unlike in 1966 when they were required to obtain their raw materials at an appreciable premium (250 per cent according to the Silk and Art Silk Mills Association chairman, Mr Surendra M. Mehta), there is every justification for a reasonable decline in viscose yarn prices. But those who make such an assertion seem conveniently to overlook the fact that costs, including the price of pulp, have gone up over the past few years.

It is also the contention of viscose yarn interests that, although they have agreed to spare 10 per cent of their yarn production at concessional prices for exports and the Silk and Rayon Textiles Export Promotion Council has allowed them to recover the consequent losses by loading domestic prices, they have not done so as they are not in a position to do so currently.

This leaves only one more allegation—idle capacity —to be examined. Although every one has become familiar with idle capacity, thanks to the recent recession, not many are perhaps aware that idle capacity in the weaving sector is a normal feature. Both the Asoka Mehta Powerloom Enquiry Committee and the Kampani Study Team have gone on record as saying that 40 per cent of the weaving sector always remains idle. In Amritsar, generally, the winter months are idle months for powerlooms using viscose yarn. Presently, they may also have been adversely affected by the tight money conditions, the absence of appropriate export promotion plans and the unhealthy competition stemming from smuggled goods from Nepal.

Meanwhile, the *bona fides* of the viscose spinners seem to be fully established by the fact that they have expressed their gratefulness to the government for having referred the question of fixation of fair prices for the industry to the Tariff Commission. There are reasons to believe, so the spinning section of the industry argues, that the weaving sector today is relatively more favourably placed, and it is, therefore, high time that a proper balance was maintained between the two important sectors.

Gaps in Science Policy

K. D. SHARMA, SUDARSHAN MALIK (Miss) & UMA SEN (Mrs)

HOW SHOULD developing democracies co-ordinate scientific research? Since scientific resources are as scarce as capital and under certain circumstances scarcer than capital, the co-ordination of research with a view to obtaining optimum use of these scarce resources is the most urgent problem for these countries. Presently these countries are ideologically unwilling, institutionally ill-prepared and ecologically poorly balanced to ensure a fruitful and effective co-ordination. Whereas this is a prime problem for underdeveloped and developing countries, even the advanced countries are not free from it. In those countries, the co-ordination problem manifests itself under various shapes, varying in size depending upon the magnitude of the research efforts on the one hand, and organizational machinery developed for it on the other. Problems facing science in each country are peculiar to its economic and social order, and hence each country develops science organization suitable to its needs. Experience of one country may serve as a mode to indicate a line of approach, but the system cannot be transplanted as such. Hence a study of attempts at co-ordination by other countries may not serve as more than guidelines. In the present study, which is a continuation of the Science Policy(1) study, an attempt has been made to view the problems of co-ordination of scientific research in our country at the national level and it is expected to serve as guidelines to other developing countries of the region, since economic priorities and geographical contiguity would be generating similar problems there also.

Most people, including our leaders, hold that science neither can, nor should be directed by the government. Institutionally, a few powerful agencies, especially the Atomic Energy Commission (AEC), the Council of Scientific & Industrial Research (CSIR), the Defence Research and Development Organisation (DRDO), the Indian Council of Medical Research (ICMR), and the Indian Council of Agricultural Research (ICAR) control more than 75 per cent of our annual research and development expenditure, with very little supervision by the government or Parliament. Ecologically, more than 45 per cent of the government funds for research and development are spent in three or four metropolitan cities, e.g., Calcutta, Bombay, Madras and Delhi. The effect of this concentration on the effective use of science and co-ordination of the government's scientific resources can be gauged from the following discussion.

National Co-ordination

It is a common belief that scientific work, like all other creative works, is not inherently controllable and hence cannot be easily co-ordinated. The scientific mind is an enquiring mind and has to explore new ways and means. To try to guide an investigating mind is to stifle it. 'All genuine science has its origin in the intellectual curiosity of the free human spirit. It is not something which can be dictated by either the ecologians or ideologians, or in the long run by rulers'(2). It is also advocated by the extreme protagonists of centralized planning that scientific research activity must be kept free from social and political controls.

Social philosophers and political thinkers of the western world do not look at scientific activity as they do at education, public health and other professional activities. They become sometimes oblivious of the fact that scientific activity is becoming more and more a national interest, and hence is an essential part of the political processes. This leads them to believe that the increased national interest need not necessarily be expressed through planning or through outright government control. However, unconsciously, they have evolved a system of national control and guidance of science which is very effective. The position in these countries has been very succinctly summed up by Amitai Etzioni(3) as under:

"Modern democracies especially in western Europe have evolved ways of national guidance that are more permissive, and at the same time more effective than totalistic or outright control. In social science, this development is referred to as indicative planning or programming".

The study of central co-ordination and control of scientific activities is therefore of interest as a study of methods and techniques of central directions in the fields of educational, public health and other professional activities, which will probably also come under greater public control in India in the coming decades.

Centre's Role

In the field of scientific research, the central government provides for about 80 per cent of the total expenditure on research and development and state governments another about 15 per cent, the rest being the contribution of private industries. The last category is of recent origin. It has been observed(4) that the central financing is one of the weakest ways in which a national government can effect a social activity, especially as long as few or no 'strings' are attached. However, the central control of major segments of Indian scientific activities, through financial control, is not only stringent but more powerful and inhibiting. This is because science in our country has not yet attained an independent status of its own nor has the organizational structure developed built-in buffers to absorb the administrative shocks and strains resulting from financial sanctions.

The great expansion of scientific activity after Independence was effected by the creation of a chain of national laboratories, expanding university departments and boosting research efforts in other departments and ministries, e.g. Department of Atomic Energy and the Ministry of Defence. The creation of new scientific institutions involved fewer political strains and no social dislocation as this sector was altogether new and was not created at the expense of the existing ones. Since lack of capital resources is a chronic malady with the developing nations, plans for new scientific requirements are occasionally shelved or postponed. There is however no attempt at redistribution of scientific resources. This could be possible if the country had a consolidated "science budget". This is an important gap in the science organization of the country. In a developing country where science is growing, expansion and redistribution should go together.

The Government of India does not approach the question of guidance and co-ordination of scientific activities in terms of priorities and allocations, as the Soviet Union or other centrally planned economies do. There is no attempt at the organizational level in the country to co-ordinate, guide or to review the overall activities of scientific research. Similarly there is no attempt, in terms of directives, to integrate scientific efforts with social and economic goals of the nation (5). Even so, unlike the United States of America, the government in our country is only a supporter of research but not its client, except perhaps in Defence research.

We are not concerned here with the process of project selection and programmes of research institutes. Neither are we concerned here how government responds to

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external stimuli to support science. The important point for the present discussion is that the government has assumed the role of providing technological development through public supported science. Although governmental control through administrative mechanism is quite high in each research establishment, there is no effective co-ordination and national guidance of scientific efforts between various institutions. It may be stressed again that expenditure on scientific research in our country by private industrial houses is still meagre; hardly 5-7 per cent of the total research expenditure. Secondly, data for research financed by industry is not available at one place. Therefore, for the purposes of this article, government expenditure on research and development is taken to represent the total expenditure in the country on research and development activities.

The total government research and development budget in 1950-51 was hardly Rs 2 crores and by 1965-66 it rose to nearly Rs 51 crores. Table I below gives the rise in the research and development budget in India from 1950-51 to 1965-66.

TABLE I
TOTAL EXPENDITURE ON SCIENTIFIC RESEARCH AT CONSTANT PRICES 1952-53 PRICE LEVELS(6)

(Rs crores)

Year	Central government	Other	Total
1950-51	4.191	0.796	4.987
1955-56	13.122	2.493	15.615
1960-61	23.957	4.562	25.808
1965-66	42.788	8.130	50.918

Central co-ordination and guidance of research are developing haphazardly in our country. In part the pattern is modern and suitable to a democratic society and the needs of scientific activity, i.e. it provides decentralized control (CSIR laboratories and reorganized ICAR) of research activities carried out by hundreds of scientists in various research organizations. The major deficiency seems to lie in the absence of proper role identification and a clear statement of objectives. It is not so much a question of excessive governmental intervention and control of the laboratories, as it is one of closer and effective, mutually beneficial, relationship among the many governmental agencies that guide and administer science. e.g., ICMR, ICAR & CSIR, Department of Atomic Energy, the University Grants Commission (UGC) and the national decision-making bodies (e.g. Planning Commission, National Development Council and Scientific Advisory Committee to the Cabinet) that formulate the national goals which the scientific community is to accomplish.

The lack of an overall national policy is also revealed in the allocation of government funds for research and development among various departments, agencies, and sectors of research. In the financial year 1964-65, the sector-wise allocation was as given in Table II.

The purpose of quoting these statistics is to show how ill-connected these allocations are with the importance of national problems and the schemes of economic priority. A country which is primarily agricultural, and suffers from chronic food shortages, spends only 17.51 per cent of its research budget on scientific activities in this sector. Another important sector that is neglected is medicine and public health. This is because of the fact that the allocation of funds is not decided and scrutinized by any central science policy organization, which could alter the pattern of allocation significantly. The pattern of allocation of research and development resources is largely the result of demands for grants voted by Parliament each year for individual ministries controlling or administering particular sectors or organizations of research. In reality the allocations are decided by the Ministry of Finance and then put up to Parliament. Each of these ministries work in isolation and there is hardly any attempt at any stage to co-ordinate the research budget. The relative merits of Agriculture, Medicine and Public Health, Education, Industrial Research and Atomic Energy are hardly reviewed jointly to decide inter-se priorities. The prevailing state of affairs has been summed up in the most crisp words by Amitai Etzioni(7).

"One might argue that this is the way the federal government works in general, that is specific interests etc. make their case before the higher executive authorities (and the legislature) which decide policy by taking into account the merits of the statements, as well as such political factors as the relative powers of supporting groups and public opinion. This, as might be said, is the way a pluralistic society makes political decisions."

The lack of a national authority or a parliamentary body to review the national policy for science has not enabled even the public opinion to play the balancing role it does in other spheres such as, nuclear weapons, tax policy, etc. It may be said that the absolute majority of the ruling party in the last three parliaments may have prevented free and fruitful debates to show their impact. But the government now can hardly afford to by-pass the views expressed by other groups in Parliament. In the absence of a central policy-making body the possibility of specific interests justifying themselves before the public is reduced, because they do not have a forum which could give them the opportunity to express themselves.

Superficial Approach

This approach to research and development enables departments with fashionable and catchy nomenclatures to supersede the demands of those sectors which have more general and continuing responsibilities such as medicine and public health as opposed to atomic energy. Those which can show flashy results though of little long-term or durable importance are favoured over those with less tangible results such as the training and education for scientific workers.

The weakness of the higher policy-making bodies vis-a-vis the scientific institutions with which they have to deal is reflected in the size of their staff and consequently their budget. The Scientific and Research (SR) Division of the Planning Commission is entrusted with the responsibility of assisting the Planning Commission in drawing up the country's scientific research and development plans. This small organi-

TABLE II
EXPENDITURE ON SCIENTIFIC RESEARCH BY CENTRE & STATES CLASSIFIED ACCORDING TO SECTORS—1964-65*

(Rs crores)

Sector of Research	States	Centre	Total	Per cent
Agriculture	3.105	5.500	8.605	12.95
Animal husbandry, fisheries & dairy	0.901	2.130	3.031	4.56
Scientific, industrial & technological research	0.338	14.735	15.075	22.69
Medicine & public health	2.069	3.119	5.188	7.87
Irrigation & power	0.746	2.219	2.965	4.46
Geological survey	0.661	4.889	5.520	8.31
Atomic energy	·	14.342	14.342	21.59
Railways	—	0.924	0.924	1.39
Defence	—	7.939	7.939	11.95
Others	—	2.840	2.840	4.23
Total	7.820	58.607	66.427	100.00

* A. Rahman, et. al. State Support to Science.

sation is supposed to co-ordinate the efforts to widely dispersed scientific and technological departments and organizations of the Government of India(8) with a total budget among them of nearly Rs 28 crores. This agency is to supervise and co-ordinate the development plans of giant empires such as the Department of Atomic Energy, the Council of Scientific & Industrial Research and the Survey of India, each employing more than 8,000 scientific and technical personnel. Each of these agencies has a much larger headquarters staff than the SR Division of the Planning Commission. As a result, one technique of obtaining approval of their programmes is for these units to 'overload' the Planning Commission with technical details of their projects. Since the Planning Commission cannot check all the material, both for want of technical competence as well as manpower, it is reluctant to reject any programme. It only shifts its responsibility to the Ministry of Finance which may prune the overall financial allocation leaving it for the unit to make adjustments in its programmes. The same process applies to the allocation of foreign exchange.

The second body which could guide in the making of policy is the Scientific Advisory Committee to the Cabinet (SACC). It has no permanent staff of its own. The secretarial facility to it is provided by the Cabinet Secretariat as an additional responsibility. The SACC encompasses still bigger area than the SR Division of the Planning Commission. In its present form SACC is not effective in co-ordinating scientific research in the country and provide the necessary national guidance, since it has no executive powers. Moreover, SACC suffers from lack of objectivity. This has been clearly brought out by the Education Commission report. It states: "The committee is mainly constituted of representatives of important research organizations in the country. This makes, to say the least, an objective and critical examination of issues of national research policy difficult. The members are often too directly involved to be able to take an objective and detached view".

Paucity of Resources

In a developing country resources have numerous competing claims and the allocating authorities have to be very careful in determining the priorities. By the nature of things, scientific research in these countries gets a residuary treatment. Further, scientific equipment and instruments industry in these countr.es is not sufficiently developed; by and large research laboratories have to import such equipment. This makes science in these countries depend on foreign exchange which is a very scarce resource.

Administrative machinery may augment financial resources for scientific research and development at any particular time, but it cannot alter the total number of scientists available to the country in a particular year. Moreover, with programmes of industrialisation being accelerated from plan to plan, the avenues of employment for science and technical personnel in the industry become more lucrative. Industries become competitors with research and development for high calibre human resources. For developed and advanced countries the supply of human resources may be flexible. Some of these countries import qualified men from other countries. But not so the less developed countries. They have, on the contrary to face the problem of 'brain-drain'. We must therefore constantly keep in view the programme of long-term development of human resources.

Not only are human resources, in the form of scientists and technologists, scarce in the developing countries, it takes a long time to train new scientists and engineers. This itself makes a long-term, well co-ordinated overall policy necessary. In the short-term, normally science personnel is only re-allocated from one sector to another. Longer the period of training, more severe is the damage done by short-term reallocation decisions. It is not possible to specify the time it takes to train up a scientist or an engineer. The length of lead time depends on the depth rather than the scope of research. If the shortage is at the higher echelon, it might take five to 10 years and if it is at the lower level of the scientific workers the lead time may be anything between 10 to 12 years. Hailsham estimates the lead time as 30 years. In developing countries it is therefore essential that the plans of economic development should make long-term assessment of various types of manpower required and take necessary steps sufficiently in advance to generate such resources.

Our educational system tends to draw a large part of its recruits for science and technology from a limited segment of society. The talent born to the rural and poorer sections of the society is left largely unexploited. Educationists often are found discussing the problem of 'wastage' in the form of 'failures' or 'dropouts' or falling standards of education. No thought is given to ecological concentration of good educational facilities in a few cities. Situated as we are, with a large population, greater tapping of science talent may exhaust the traditional recruitment basis without finding alternative sources. The sociological base of our recruitment must be significantly broadened, before we are faced with the situation now obtaining in the USA, where the traditional segment has almost run dry. This would further increase the lead time.

Long-Range Forecast

The long lead time necessitates a forecast of the needs of scientific personnel of the country 15 to 20 years hence. The cataloguing of the needs would help us to evaluate the present emphasis in our educational system in terms of our requirements of future and would also identify the new priorities. Such a projection of long-term needs could never be accurate, yet it could serve as guidelines. There should be built-in flexibilities in the system to allow for accommodation of short-term priorities. This brings the question of the role of the central government in the field of education. Finally, without a clear concept of the overall research and development needs, both in breadth and depth, there is the fear that universities and teaching institutes would be denuded of competent teachers to train future researchers. Even today the country is faced with the problem of shortage of competent teachers; with greater emphasis on research and development, the shortage is likely to become acute.

Since Independence, many committees and study groups have reported on the shortage of technical manpower in the country, but while voting for the budget of each of the organizations for scientific research and development Parliament has never considered the human resources aspect of their

TABLE III
EXPENDITURE OF CENTRAL GOVERNMENT ON SCIENTIFIC* RESEARCH ACCORDING TO CONTROLLING MINISTRIES—(1964-65)

Ministry/Department	Expenditure (Rs crores)	Pencentage of total
Atomic Energy Department	14.342	24.47
Civil Aviation, Communication & Transport	0.335	0.57
Commerce, Industry & Supply	0.846	1.44
Defence	7.939	13.54
Education	13.617	23.23
Food & Agriculture	7.751	13.24
Health	3.097	5.28
Home Affairs	2.522	4.30
Information & Broadcasting	0.078	0.13
Irrigation & Power	2.219	3.79
Railways	0.924	1.58
Steel & Mines	4.866	8.30
Works & Housing	0.080	0.13
Total	58.607	100.00

* A Rahman, et. al. State Support to Science.

programmes. The Planning Commission also while considering the five-year plan programmes has not given thought to this aspect. It would be in the fitness of things if Parliament insisted that each organization entrusted with the task of research and development be obliged to specify what kind of resources it needs. This would help to identify the surpluses or shortages of resources. This would also lead to better informed and more purposeful debates in Parliament.

It would thus be clear that if research and development budgets of various government and non-government organizations were made or at least reviewed by one committee or council the prospects for a balanced emphasis on research and science policy would be brighter. The formulation of long-range government policy in science itself would perhaps decrease the need for centralization. It would then accommodate the changing social and national priorities in its development programmes. Without at least an overall picture of the future national research and development needs, a better balance of training and use of human resource can hardly be expected.

Ecological Distribution

Scientific research in our country, as stated earlier, is by and large financed and managed by the central government; the states have almost negligible contribution to make. Unconsciously, the pattern of development of scientific research has been that it is concentrated in a few big cosmopolitan cities and three or four progressive states. It is not suitably distributed all over the country. It has been observed that creation of large research and development facilities serves as seed for other industrial activities and opens up job opportunities. Because of this 'spill over' effects the deprived or backward states would also press the claim to have research and development activities in their states. The country shall thus have to evolve its policy for ecological distribution of research and development activities to be created in future. For developing such a policy the following factors shall have to be kept in view:—

(i) Security considerations that point towards greater dispersal of resources among states.

(ii) Educational needs and setting up large centres in comparatively backward regions of the country which in combination with teaching facilities would accelerate their development.

(iii) The available technological and scientific potential of the region should be assessed to draw up future plans.

The preceding discussion suggests the need for an organisation to co-ordinate scientific research activity at the national level. The first step in this direction should be to do away with the multiplicity of policy-making and co-ordinating agencies at the national level. It is felt that the necessary machinery could be either a Department of Science and Technology, with a cabinet-level minister in charge of it, or the reorganised SACC as policy-making body and the National Council of Science and Technology (NCST) as a co-ordinating body.

The Department of Science and Technology if established would have to absorb both the SR Division of the Planning Commission and the SACC.(9) This would also necessitate the amalgamation of science organisations, such as ICAR, ICMR and CSIR, under the proposed department. The main danger here is of over-centralisation and bureaucratisation. Care is to be taken to see that this Department of Science and Technology does not create more delays and rigid controls, a spread of power, in which bureaucrats become overlords of research and development.

It is, therefore, suggested that the country should have a two-tiered system for national guidance and co-ordination of scientific research. The first tier would engage itself in the activities concerned with policy matters and national guidance. This could be the present SACC with modified scope and objectives. The second tier would co-ordinate diversely spread out research effort and look into the implementation of the science programmes and policy directives issued by SACC and the Planning Commission. This tier may be designated as the National Council of Science and Technology. In addition to co-ordination, this organisation could be assigned the responsibilities of suggesting intra-sectoral priorities and preparation of science report and budget for the country.

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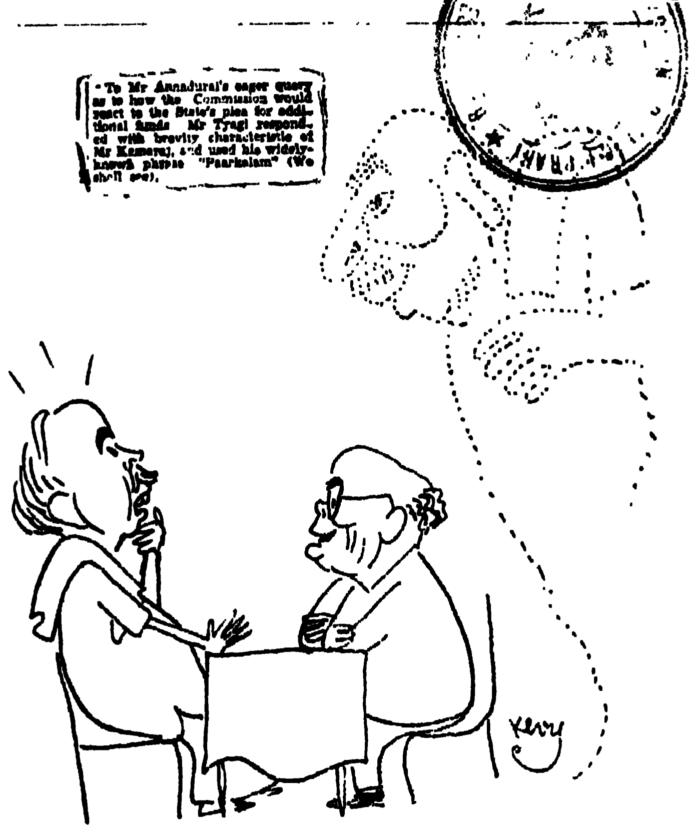
9. SACC has been re-designated as Committee on Science and Technology (COST). Its objectives and scope are being decided.



Shape of things to come?

The Anatomy of Poverty

S.P.CHOPRA

ANY ASSUMPTION that can be made of a reasonable capital-output ratio, that an investment of x rupees would yield an income of, say, y rupees does not apparently apply to Bihar. More specifically the considerable investment made in heavy industry in this state has not produced much impact on the standard of living of its people. This is the upshot of a detailed case study of Bihar, in relation to other states of this country, which was undertaken by Dr Kedarnath Prasad of Patna University.* A research grant of more than Rs 70,000 was received by Dr Prasad from the Research Programmes Committee of the Planning Commission. His findings covered two volumes explaining Commission. His findings covered two volumes explain-In the foreword to this book, Dr V. K. R. V. Rao has lamented that "somehow, multiplier and demonstration effects do not seem to have worked in this state".

In documenting the inadequacies of regional planning as practised in this country, Dr Prasad has done some useful work here. He analyses the growth of Bihar in relation to other states and scrutinises a number of research studies dealing with this subject. The introduction to the book covering no less than 54 pages is an analytical essay dealing with the importance of regional development. Considering the inadequacy of statistical data, the author is to be commended on collecting and collating such information as is available in highlighting the peculiar problems of this state.

According to the 1961 census, Bihar was the most populous state, next only to Uttar Pradesh. As against its second rank in population among the states of this country, its rank in area is ninth, signifying a relatively high density of population. It is in fact the third most densely populated state in the country, the first two being Kerala and West Bengal. In the percentage increase of population between 1921 and 1951, it enjoyed the fifth rank.

Interesting Observations

Dr Prasad has compared different aspects of population growth in various states and has made some interesting observations. He reveals that "the state of Assam with the smallest proportion of married women showed almost double the rate of growth of Bihar which had the largest proportion of married women". Again, "West Bengal with the highest proportion of widows showed a more rapid rate of growth than Punjab which had the lowest proportion of widows. Bihar with the highest proportion of child wives showed a lower rate of growth of population than Madras which had almost the lowest percentage of child marriages. Population had increased almost as rapidly in Orissa which had an excess of females over males as in Punjab which always had a chronic deficiency of females".

Bihar has almost one-fifth of its area under forests which constitute a rich asset. Unfortunately, they have not been used profitably. About 85 per cent of the forest area was in private hands at the time of Independence, but all of it was subsequently taken over by the Government of Bihar for management much before even the Land Reforms Act came into force. The first five-year Plan concentrated attention on the survey and demarcation of these private forests. The second five-year Plan devoted its attention to the afforestation of waste lands on a large scale. The imbalance in the regional distribution of forests was sought to be mitigated to a certain extent by afforestation of 7,000 acres of north Bihar and by the establishment of bamboo plantations in the third Plan period. It has been estimated that about 200,000 acres were brought under forests during these five years. Despite all these efforts the productivity of forests in Bihar in terms of gross revenue per square kilometre was very low. Its rank among the states of the country was 14; whereas Kerala obtained Rs 2,062 from every sq. km of area under forests, Bihar obtained only Rs 460 per sq. km. The bamboo reserves in the forests of Bihar are not sufficient for the increasing demands of the paper mills in the state. Moreover, the forests in Bihar do not have suitable trees for match wood. The national forest policy laid down by the Government of India as far back as 1952 stated that Bihar should have a well-distributed forest area up to 35 per cent of its total area implying that the existing forest area in this state should be nearly doubled. It is now patent that the work of afforestation is so vast that it cannot be tackled effectively by the forest division. Dr Prasad has suggested that a number of such divisions should be set up if the target laid down by the national forest policy in 1952 is to be achieved.

Mineral Wealth

Whereas Bihar has a weak agricultural base, it is strong in mineral resources and it occupies a position of central importance regarding minerals in this country. Bihar owns 75 per cent of the country's total mineral wealth which is located in four of its districts, namely, Singhbhum, Hazaribagh, Dhanbad and Palamau. The state occupies the first position in the output of lignite coal and limestone and third position in regard to mica. The movement and distribution of coal involves problems which have not been resolved amicably so far. The mining industry in this state has repeatedly pleaded for an improvement in communication facilities which are not satisfactory at the moment. The economics of transport, according to Dr Prasad, dictates certain locational decisions. He is of the view that there is great need for augmenting coal production from coalfields in central India to avoid long-distance movements of coal from Jharia in Bihar to Punjab and Gujarat.

The meagre investment on the infrastructure of Bihar is also a factor in slowing down its economic growth. The supply of power for industry and transport facilities are significantly short of growing requirements of the state. It does not possess even good roads to carry merchandise from one part of the state to the other. Its rank in regard to surface roads for every 100,000 population is twelfth whereas Maharashtra occupies the top position. The backwardness of Bihar in road development has been a hindrance, though the rail system of the coal belt area in eastern Bihar is well developed to meet the traffic requirements. It is in the colliery area that the roads are bad with the result that the number of motor vehicles operating in this state is substantially below the all-India average.

The Ganges and other rivers in the state which were once prosperous highways were allowed to decay either by design or by default with the rise of the railways. The waterways still possess a valuable transport potential which can be used to great advantage at modest cost. It is the absence of organisational and technical backing which has caused the negligence of this mode of transport. Besides emphasing the urgency of surface roads, Dr Prasad has suggested that the role of inland navigation in the national transport policy should be clearly defined and its growth co-ordinated with that of the railways and road transport.

As in the case of transport, power supply in Bihar has not made as much progress as in some other states. The per capita consumption of power in Bihar is substantially lower than in

*The Economics of a Backward Region in a Backward Economy by Dr Kedarnath Prasad; Vol. I, Pp. 471, Price Rs 36; Vol. II, Pp. 584, Price Rs 45; Published by Scientific Book Agency, 22, Raja Woodmunt Street, Calcutta-1.

some of the industrial states such as Maharashtra, West Bengal and Madras. In 1962-63, the per capita annual consumption of power in Bihar was 49.03 kWh as against 63.46 kWh in Madras, 87.07 kWh in Maharashtra and 98.59 kWh in West Bengal. Practically all of the state's electricity consumption is for industry and public works. Household use of electricity in Bihar is two per cent of the total as against the nine per cent average for the whole country. Rural electrification in Bihar is making some progress mostly for purposes of irrigation, lighting and for flour and oil mills. More than 3,000 villages in Bihar have already been electrified and their number is increasing at the rate of 500 per year. If electricity could be made available readily and at cheap rates, Bihar could have a prosperous aluminium industry in view of the availability of bauxite.

Bihar has nearly 13 per cent of the total agricultural population in the country which is the highest for any state. The fallow area which can be brought under cultivation is not very large though it is possible to bring under irrigation a large part of the cultivated area which still depends on the rains. The productivity of agriculture in this state is low, the outstanding reason being the uneconomic size of the average holding. Moreover, the inadequacy of irrigation facilities in Bihar makes the monsoons the deciding factor in agricultural production. The main crop in Bihar is winter paddy which requires not only abundant water but also rainfall spread evenly over the season of the crop. The state produces neither enough food for its growing population nor adequate quantity of raw materials for its industry. Both these factors create instability.

Considerable Water Resources

Bihar possesses considerable water resources, the average rainfall in the state being 50 inches. The Kosi and the Gandak can be made to irrigate larger areas. The Kosi project has been instrumental in not only reducing the intensity of the floods but also in irrigating vast areas and generating large quantities of electricity. The various studies made by research organisations show that the completion of the Kosi project itself has brought about vast changes in the financial position of the rural families there. The survey conducted under the guidance of Dr Prasad has shown that the "the economic condition of both the Kosi workers and the people living in the Kosi area was favourably affected by the implementation of the Kosi project. While the changes in the economic condition of the villages in Supaul and Nirmali can be said to have changed materially for the better, no such definite judgment can be passed on the changes in the economic condition of the Kosi workers although, even in their case, there are indications of some progress

As stated earlier, Bihar is deficit in regard to food supply. In 1949-50, the base year for the first five-year Plan, the state's deficit in cereals and pulses was estimated at 1.1 million tonnes which by 1956-57 rose to 3.1 million tonnes. In 1964 this deficit was a little less than a million tonnes. It has been noticed that since 1960-61 the production of foodgrains in Bihar has remained more or less stable despite the recurrent visitations of floods and droughts. The gap in food supply has naturally tended to push up prices from time to time and in general the prices of foodgrains tend to be higher in Bihar than in the surplus states. The consumption of food by an average rural family in Bihar leaves much to be desired.

The second volume of Dr Prasad's study deals mostly with the industrial sector. The author has waded through considerable amount of statistical work and has come to the conclusion that Bihar has remained backward despite all the efforts made since Independence. This also applies to the per capita income of the state to which subject one full chapter has been devoted.

It is perhaps natural that Dr Prasad's close look at the lost opportunities of Bihar over the period of the five-year Plans should have induced in him a mood of pessimism. Even so the excess of despair he has permitted himself on the general state of the nation, including Bihar, seems to be too subjective for a research study. He has painted a dismal picture which is too gloomy even in the context of the mood of the country sometime in the third quarter of 1967 when he wrote down his conclusions. Says Dr Prasad: "We in India are definitely going downhill in every walk of our life—economic, political, social, moral and so on. The decadence that has lately set in our life is ubiquitous. All lofty and noble values are sagging one by one and coming rapidly to their dead-end, yielding place to shoddy and base ones. The economy of the country is moving slowly towards the stage of the static state adumbrated in English classical economics". Continuing in the same vein, he says: "The short strides made here and there in the economy amount to nothing when set off against the sinking of the morale and the inner spirit of the nation. The future of this state is dark and dismal. How this situation will resolve itself is extremely difficult for us to predict."

It seems to us that the capital-output ratio for the Planning Commission's grant for Dr Prasad's research work has turned out to be as unhelpful for that institution's morale as the performance of Bihar in the area of development may be to that state or the nation.

Eastern Economist 25 Years Ago

JANUARY 28, 1944

In almost every country without exception, monetary expansion and rise in prices have proved inevitable in war. But a valid comparison of the relative prive levels in different countries is extremely difficult to make under the present abnormal conditions. Exchanges and prices are everywhere controlled, and price indices are computed under a system of select official prices, while the greatly altered weights of commodities in current production and consumption and rationing and other controls detract greatly from their value. The Review of the Trade of India in 1941-42 just published, throws some interesting light on the various elements, of which the rise in prices is compounded in different countries. The increase in wholesale prices in the U.K., which was more pronounced than in any other country except Switzerland in 1941-42 was mainly due to increased shipping and war risks charges and the difficulties of importing raw materials and food from abroad. In the same year, prices in the USA remained subdued all through, though the prices of primary commodities began to exceed those in the UK due to a shortage of key raw materials. It is interesting to note that this was avoided in Britain by rigid State control and distribution of these commodities. In India the increase in the prices of imported goods was greater than for exports, and this played a prominent part. in 1941-42.

WINDOW ON THE WORLD

The Changing European Kaleidoscope

JOSSLEYN HENNESSY

THE GERMAN DILEMMA

LONDON:

SINCE THE war, West Germany's foreign policy has had three main objectives. First, the rehabilitation of the defeated, divided, and occupied state, and its acceptance by her neighbours as an equal, self-reliant and responsible member of the family of nations. Secondly, to secure the defence of its territory and integrity, not by an independent military capacity, but as one of a number of partners in a defensive alliance. Thirdly, to achieve reunification with its Soviet-occupied eastern territory, which over the past two decades has evolved as a viable nation-state in its own right.

The rebuilding of devastated Germany and its emergence economically as Europe's most prosperous and powerful state carried with it from the beginning the danger of arousing the jealousies and fears of her neighbours. If the recovery of economic power had been coupled with an independent military capability, West Germany might have provoked hostile policies from her former enemies to redress the balance of power in Europe. Reunification of the two Germanies into one independent state would have been even more "unthinkable", because fears of German hegemony in Europe would almost certainly have resulted in common action by both her eastern and western neighbours leading possibly to a physical reoccupation of the country.

That is why West German statesmen recognised at an early date that the achievement of economic recovery, integrated European defence, and reunification, would be possible only amidst a fusion of the independent nation-states of Europe into some form of federation, in the first instance of Western Europe, but ultimately of both halves of the continent. They furthermore recognised that no supra-national community would be acceptable if West Germany dominated it. That is why, while West Germany remains the strongest protagonist of European unity, she has always left the initiatives to others.

It is in the light of these factors that we must analyse the evolving situation in Europe and the real dilemma that faces West German policy today.

Decisive Contribution

The West German economic miracle was achieved without arousing the hostility of her neighbours largely because of the great financial price she was willing to pay towards the construction of the European Economic Community. Her economic contribution to the Common Market has been decisive in its successful growth, and her five partners see her industrial potential not as a possible instrument of West German domination of the Community, but as benefitting all six members.

Since the failure in 1954 of the French to ratify the treaty for a European Defence Community, West German security has depended on the North Atlantic Treaty Organisation, and particularly on American and British troops in West Germany. In the face of continuing Soviet hostility, the protection of the American nuclear umbrella and of US and British troops have remained the basis of West German defence policy.

As a means towards the future reunification of Germany, West Germany's Foreign Minister, Herr Willi Brandt, has evolved a new eastern policy which seeks to re-establish, and to increase, economic and cultural co-operation with the countries of eastern Europe, including the German Democratic Republic, in the hope that this would lessen tensions sufficiently to permit the progressive drawing together of the two halves of Germany.

General de Gaulle's hostility to the alleged Anglo-Saxon domination of Western Europe has led France to pursue an independent policy, the success of which rests upon West German support, but General de Gaulle can only keep this support as long as he recognises West Germany's own interests and actively works to promote them. The first step in this policy was the negotiation of the Franco-German Treaty of Friendship to confirm and cement the acceptance of West Germany by her former greatest enemy as an equal partner, and friend, with whom conflict would be "unthinkable". In order that, at some future date, West Germany should agree to free herself from American military protection, France had to develop a credible nuclear capability which she could ultimately place at the service of a Franco-German military alliance. To assist the ultimate reunification of Germany, General de Gaulle initiated an active, and at times spectacular, policy of detente and friendship with West Germany's eastern neighbours in harmony with West Germany's own eastern policy.

Grave Setback

French policy, however, suffered a grave setback in 1968. First, the unrest and the general strike in May and June led to a serious economic weakening of France and to postponement of her nuclear and conventional rearmament. Soviet occupation of Czechoslovakia both increased West Germany's sense of insecurity and set back for some considerable time the policy of detente pursued by both France and West Germany. Finally, the November monetary crisis and West German refusal to revalue the DM has raised new fears in France of West German economic predominance. It is rumoured that General de Gaulle has therefore ordered the objectives of French foreign policy to be re-examined and re-assessed.

For West Germany, however, the new situation presents a real dilemma. For the sake of Franco-German friendship, Bonn has pursued a wavering course over the building of European unity. Over the questions of the British application to join the Common Market or the strengthening of the supra-national elements of the European Community, West Germany has refused to exert influence to counter French objections. Doubts exist as to whether France would have recourse to a veto if West Germany were prepared to exert the full influence on General de Gaulle of which she is capable.

Although the arguments for European technological and monetary union—so obvious to British and other outside observers—have less force in a prosperous and financially strong West Germany, a common European foreign and defence policy is an essential step towards achieving West Germany's aim of a politically united Europe. Thus, proposals for the construction of a European Political Community with genuine supra-national institutions, if necessary outside the framework of the existing Community, would compel West Germany to consider a decisive shift from her present policy.

Such a confrontation might occur during Harold Wilson's forthcoming trip to Bonn in February. Despite the repeated pronouncements of British Ministers, doubts persist on the Continent as to whether Britain is ready for this momentous step to build a politically and economically united Europe, not a Gaullist confederated "Europe des Patries", but a

genuine Community with supra-national institutions designed to culminate in a United States of Europe. Lord Gladwyn and other leaders of the UK Campaign for Europe assert that if Mr Wilson were to declare an unequivocal British commitment to this aim, West Germany could no longer fall back on the pretext of French intransigence. Her own interests would inevitably dictate the choice of a politically united Europe, even at the risk of French displeasure. West Germany's Common Market partners, excepting France, would, in the view of these British observers, follow with alacrity, and the impasse in European construction would at last come to an end, and they conclude that the key to this solution lies in Mr Wilson's hands—and that upon his courage and determination at this moment of time depends the fate of European union

II

REPERCUSSIONS OF THE MONETARY CRISIS

Whether the recurring crisis in the monetary system is the cause or effect of the prevailing political malaise, the confidence of governments and governed has been shaken over a wide field. From any realistic point of view, the case for an organised and united western Europe has made itself.

The flow of rumour and counter-rumour as the Group of Ten struggled to resolve the conflict of national interests at their November emergency meeting in Bonn was hardly encouraging. France, in extremis, still did not concede devaluation of the franc. A buoyant West Germany saw no reason to revalue the deutschmark. The danger of fresh speculation may have been damped down, but it was not removed, and, despite new squeezes and freezes, both the £ and the franc remain under threat.

The contrast between West Germany's robust economic health and an enfeebled France and struggling Britain was dramatised into a highly-coloured picture of a politically ascendant Bonn holding all the cards with which to reverse the lead previously established by Paris. This, of course, left out of account both Dr Kiesinger's caution and General de Gaulle's capacity for finesse—let alone the vast array of external factors influencing the present and future course of events,—but I agree with the UK leaders of the Campaign for Europe that the balance within the Community is now more evenly distributed, and that the prospects of enlarging the area of European co-operation, and even of integration, have improved considerably, always provided the momentum is kept.

Need for Stability

It is not surprising that the need for economic stability and solidarity was the keynote of the speech by the Commission's chief financial spokesman, Vice-President Raymond Barre, when he addressed the European Parliament on November 27. M. Barre neither blamed nor excused those responsible for the November crisis. In the EEC Commission's view, revaluation of the mark would not have been a desirable step, and they described the French decision not to devalue the franc as an act of economic reason and of political wisdom. Not all the Six were prepared to go so far, though none denied that the decision was courageous.

However, in reply to questions, M. Barre went on to say that the French government could have avoided some difficulties if it had acted earlier to restrict credit—as the EEC Commission had recommended in July. West Germany, for its part, could have adopted an expansionary policy at an earlier date. M. Barre did not disguise that co-ordination of monetary policy in the Community was inadequate, and it was significant that the Six subsequently agreed that from January 1, 1969, there would be restrictions on the right of any member to introduce import quotas (as France did in May) without approval of the Community as a whole.

One of the more striking phenomena of the French financial crisis was the exchange of telegrams between President Johnson, expressing US support for the General's defence of the franc, and the General's prompt and cordial response. This has reinforced evidence, slowly accumulating before the crisis, of a shift towards easier Franco-American relations reflected, on the French side, in a more co-operative attitude in NATO matters in particular, which Mr Nixon, on taking office, would naturally wish to encourage.

A gesture of a different kind was the US aide-memoire presented to the West German government concerning the Brandt proposals for trading arrangements between the EEC and other European countries, specifically Britain. These proposals, together with M. Debre's later formula, are now under study with the Commission's Permanent Representatives. The principal US objection was to the suggested tariff cuts of the order of 30 per cent spread over three to four years, which Washington considered would be contrary to Article 24 of GATT, because it would create exceptions to the "most-favoured nation" clause without any compensating political advantage; i.e., in the US view, these proposals fell short of the measures of European integration which might have made them acceptable to Washington.

The underlying theme of the aide-memoire was American interest in a strong Europe, and therefore a strong partner in the Atlantic alliance, a point for French attention no less than for the Community as a whole. The West German reply, delivered on November 29, made it plain that the Brandt proposals (irrespective of those of M. Debre) did have integration as their ultimate aim, since they were intended not as an alternative to Britain's entry into the Community but to facilitate Britain's full membership.

III

BRITAIN, THE FIVE—AND FRANCE

The signs are that Britain and the Five are quietly working to follow up the idea set out in the Harmel plan (see this column November 27, 1968, for details), while continuing to keep the options open for France to co-operate within the West European Union framework. The next real opportunity for the Foreign Ministers to take further their discussions begun in Rome and in Brussels is expected to be at the WEU Council meeting in Luxembourg in February, when the experts are to present a draft report on various possibilities in the spheres of foreign policy and defence.

Presumably, the question whether to proceed to form a new institution, and at what pace, will come at least under preliminary review, since this was at the core of the resolution adopted by the Congress of Europe at The Hague. It would, in any case, be on the agenda of the projected European summit conference (not confined to Britain and the Five but embracing all interested heads of state), which the Netherlands has undertaken to organise.

No doubt some will argue that discussions and decisions of this nature should await a better economic climate, but one way to bring unity about is to rekindle a sense of unity and purpose. Certainly the ground must be well-prepared, but not at the risk of indefinite postponement—a snare that has been laid too often.

In the meanwhile, a compromise reached between France and the Netherlands seems to have overcome one impediment to prospective British participation in the technological work of the Community. They agreed on December 10 to resume the meetings of the Marechal Committee (the Community's own working group) so as to submit its long-delayed report by March 1: thereafter the Council of Ministers, having considered the report, would invite interested countries to confer on future technological co-operation in Europe. The basis of this compromise was Dutch withdrawal of their veto imposed last February when France refused to associate her candidate countries with the technological research of the Six. France, for her part, has now conceded that co-operation

should be extended beyond the confines of the EEC—to all interested countries, not the candidates alone.

This was also the formula of the Debre proposals for reciprocal commercial arrangements and a possible European patents system, which would enable France to combine the role of champion of European co-operation while keeping membership of the Community a closed shop. How far this will impress the Five and other countries is another matter. It is nonetheless good that an unprofitable stalemate on the issue of technological research should have ended.

Judging by reports of M. Debre's replies to questions put by West German correspondents in a televised press interview in Berlin, France remains uninterested in any proposals which would actively facilitate Britain's entry into the Community. Does this still leave for a modification of the Brandt proposals, or is the prospect of commercial links to wither away? We must hope that 1969 will at any rate end the present state of "masterly inactivity".

Note: Diplomats, politicians, and others, anxious to keep themselves closely informed on the UK's policies towards Europe, should contact the influential Campaign for Europe, Chandos House, Buckingham Gate, London. S.W.I.

A Nation on the March

HERE ARE a few excerpts from the Economic Report of the President, transmitted to the US Congress by President Johnson on Thursday, January 16:

I regard achievement of the full potential of our resources--physical, human, and otherwise—to be the highest purpose of governmental policies next to the protection of those rights we regard as inalienable. I cited this as my philosophy in my First Economic Report in January 1964. I reaffirm it today.

In the past five years, this nation has made great strides toward realizing the full potential of our resources. Through fuller use and steady growth of our productive potential, our real output has risen nearly 30 per cent. Most important of all are our human resources. Today the vast majority of our workers enjoy productive and rewarding employment opportunities. For those who lack skills, we have made pioneering efforts in training. We have improved education for the young to enhance their productivity and their wisdom as citizens of a great democracy.

Our capital resources—plant and equipment—are being used intensively and have been continually expanded and modernized by a confident business community. This has all been accomplished in an environment that preserved—indeed, enlarged—the traditional freedom of our economic system. In today's prosperous economy, our people have more freedom of choice—among jobs, consumer goods and services, types of investments, places to live, and ways to enjoy leisure.

Growth of Employment

I look upon the steady and strong growth of employment and production as our greatest economic success. In recent years, prosperity has become the normal state of the American economy. But it must not be taken for granted. It must be protected and extended.

—By adopting sound and prudent policies for this year and

—By improving procedures for fiscal and monetary policy-making to meet our needs for the long run.

We must find a way of combining our prosperity with price stability. Reconciling these two objectives is the biggest remaining overall economic challenge facing the nation. We must more fully secure the foundations of the world monetary system and of our own balance of payments. The international monetary system has undergone important evolutionary improvements, but we must seek more effective ways of coping with the stresses that can still develop. We must fulfill our many unmet public needs such as good education, efficient transportation, clean air and pure water. Quality as well as quantity is the key to a better life.

We must share more equitably the fruits of prosperity among all our citizens. A nation as prosperous as ours can afford to open the doors of opportunity to all. Indeed, it cannot afford to leave any citizen in poverty.

The nation is now in its 95th month of continuous economic advance. Both in strength and length, this prosperity is without parallel in our history. We have steered clear of the business-cycle recessions which for generations derailed us repeatedly from the path of growth and progress.

This record demonstrates the vitality of a free economy and its capacity for steady growth. No longer do we view our economic life as a relentless tide of ups and downs. No longer do we fear that automation and technical progress will rob workers of jobs rather than help us to achieve greater abundance. No longer do we consider poverty and unemployment permanent landmarks on our economic scene. Our progress did not just happen. It was created by American labour and business in effective partnership with the government.

New Strategy

Ever since the historic passage of the Employment Act in 1946, economic policies have responded to the fire alarm of recession and boom. In the 1960s, we have adopted a new strategy aimed at fire prevention—sustaining prosperity and heading off recession or serious inflation before they could take hold. In 1966 and 1967, restrictive monetary and fiscal policies offset the strains of added defence spending. The adjustment was far from ideal, however, because of the delay in increasing taxes to pay the bills for the defence build-up and for continuing urgent civilian programmes. In 1968, our nation's finances were finally adjusted to the needs of a defence emergency.

Aided by these policies in the past five years, the nation's total output of goods and services—our Gross National Product—has increased by more than $190 billion ($190,000 million), after correcting for price changes. This is as large as the gain of the previous eleven years. The prosperity of the last five years has been accompanied by benefits that extend into every corner of our national life:

—More than 8.5 million additional workers found jobs,

—Overall unemployment declined from 5.7 per cent of our labour force to 3.3 per cent,

—Unemployment of non-white adult males dropped particularly dramatically, from 9.7 per cent to 3.4 per cent,

—The number of persons in poverty declined by about 12.5 million—progress greater than in the entire preceding 13 years,

—The average income of Americans (after taxes and after correction for price rises) increased by 535 dollars—more than one-fifth and again more than in the previous 13 years combined,

—Corporate profits rose by about 50 per cent,

—Wages and salaries also went up by 50 per cent,

—Net income per farm advanced 36 per cent,

—The net financial assets of American families increased by

$460 billion ($460,000 million)—more than 50 per cent, and,

Federal revenues grew by $70 billion ($70,000 million), helping to finance key social advances.

Meanwhile, a solid foundation has been built for continued growth in the years ahead

—Through investment in plant and equipment. In the last five years, the stock of capital equipment has grown by nearly a third. Only five per cent of manufacturing corporations report that their capacity is in excess of currently foreseen needs.

—Through investment in manpower. More than a million Americans have acquired skills in special training institutions or on the job as a result of new Federal efforts.

—Through investment in education. College enrollment has risen by 2.25 million since 1963. Expenditures on all public education have increased at an average of ten per cent a year; Federal grants have almost quadrupled.

—Through investment in our neighbourhoods. Our urban centres are beginning to be restored as decent places to live and initial steps have been taken to help ensure construction of 26 million new rehabilitated housing units by 1978.

Our economy had an exceptionally big year in 1968.

—Our Gross National Product increased by $71 billion ($71,000 million) to $861 billion ($861,000 million). Adjusted for price increases, the gain was five per cent.

—Payroll employment rose by more than two million persons.

—Unemployment fell by 160,000.

—The after-tax real income of the average person increased by three per cent.

—An estimated four million Americans escaped from poverty, the largest exodus ever recorded in a single year.

—Our balance-of-payments results were the best in 11 years.

In some ways, 1968 was too big a year. Even our amazingly productive economy could not meet all the demands placed upon it. Nearly half of the extra dollars spent in our markets added to prices rather than to production. The price-wage spiral turned rapidly.

—Consumer prices rose by four per cent and wholesale prices by 2.5 per cent.

—Both union and non-union wages increased ab[illegible] seven per cent—responding to higher costs of living [illegible] causing higher costs of production.

—Some of the extra demands for goods were met out of foreign production, and imports soared 22 per cent.

Ultimate passage of the Revenue and Expenditure Control Act of 1968 at mid-year brought a much needed swing to fiscal restraint. .... But just as inappropriate fiscal stimulus took a while to cause obvious problems, so needed fiscal restraint is taking time to work its full beneficial effects on the economy. By the time the surcharge was enacted, the forces of boom and inflation had developed great momentum. Our economy continued to advance too rapidly throughout 1968—but growth did slow from a hectic 6.5 per cent rate early in the year to about four per cent at year-end. The budget is now in harmony with the needs of the economy, and its welcome effects are gradually emerging.

The challenge to fiscal and monetary policies this year is difficult indeed. Enough restraint must be provided to permit a cooling off of the economy and a waning of inflationary forces. But the restraint must also be tempered to ensure continued economic growth. We must adopt a carefully balanced programme that curbs inflation and preserves prosperity.

My final budget is designed to meet this demanding assignment. It is a tight and prudent programme for fiscal 1970. The budget calls for the extension of the income-tax surcharge at its current rate of 10 per cent for one year from July 1, 1969, to June 30, 1970. My economic and financial advisers unanimously agree that this fiscal restraint is essential to safeguard the purchasing power of the dollar and its strength throughout the world. Indeed, the need for continued fiscal restraint is agreed upon by all informed opinion in both of our political parties.

Gross National Product

With this budget and appropriate monetary policy, our Gross National Product for 1969 should rise by about $60 billion ($60,000 million).

—Increased expenditures on new plant and equipment will help expand and modernize our productive capacity.

—State and local governments will continue to increase their spending rapidly to meet public needs. But Federal purchases will rise little.

—Consumer spending and homebuilding activity should advance less than last year.

—The over-all gains will not and should not be as large as those in 1968, but they will still make for a highly prosperous year.

—For the fourth straight year, unemployment should be less than four per cent of the labour force.

Because fiscal policy is soundly planned, monetary policy should not be overburdened. It will need to support firmly the objective of moderating economic expansion. But homebuilding and other credit-sensitive areas need not be subjected to the sharp and uneven pressures of a credit squeeze. Monetary policy should be flexible and prepared to lessen restraint as the economy cools off.

As pressures of demand moderate, our trade performance in world markets should improve. We should also see a gradually improving trend in prices and costs, although the wage-price spiral will continue to be troublesome.

The immediate task in 1969 is to make a decisive step toward price stability. This will be only the beginning of the journey. We cannot hope to reach in a single year the goal that has eluded every industrial country for generations —that of combining high employment with stable prices.

There is no simple nor single formula for success. But this combination can and must be achieved—by the United States and within the next several years. Now that we have learned to sustain prosperity, we can surely not allow inflation to erode or erase that victory.

We stand at a critical turning point for national policy. We can meet the challenge, or we can try to evade it. Price stability could be restored unwisely by an overdose of fiscal and monetary restraint. This has been done before, and it would work again. But such a course would mean stumbling into recession and slack, losing precious billions of dollars of output, suffering rising unemployment, with growing distress and unrest. It will be a prescription for social disaster as well as for unconscionable waste.

Or we could conceivably travel the route to mandatory controls on prices and wages. But the vital guiding mechanism

of a free economy is lost when the government fixes prices and wages. We did not impose such regulations on our businessmen and our workers must not turn down this path —a dead end for economic freedom and progress. Or we could throw up our hands and allow the price-wage spiral to turn faster and faster. This counsel of despair would eventually undermine our prosperity and our financial system —wrecking the strong international position of the dollar and imposing unjust burdens on millions of our citizens.

Price stability in a prosperous economy must be pursued by a co-ordinated programme involving a wide range of actions. The fiscal and monetary programme I outlined earlier is our first line of defence against inflation. The nation has surely learned that inflation will emerge unless responsible budget and credit policies keep demand within the bounds of the economy's productive capacity. Even then, advances in prices and wages at high employment can prove troublesome. No free economy can escape these tendencies entirely. But it can keep them from developing when unemployment is too high, and it can moderate the pressures that do emerge. To do so effectively requires reinforcing other important measures to reinforce fiscal and monetary policies.

First, although the productive efficiency of our industries and of our workers is already the envy of the world, we must keep striving for further improvements. Second, both in their own interest and in the public interest business and labour should exercise the utmost restraint in price and wage decisions. It is understandable that, with living costs rising sharply, labour cannot now accept wage agreements limited to the rise in productivity. It is also understandable that, with production costs increasing, business cannot now hold prices entirely stable. But the process of deceleration must take hold for both prices and wages.

Despite some encouraging signs of progress toward peace, hostilities in Vietnam continue. In planning our budget, we must assume continuation of the war. But we must also be ready to adjust to peace whenever that welcome day arrives. Early in 1967, to ensure our readiness for peace, I established the Cabinet Co-ordinating Committee on Economic Planning for the end of Vietnam hostilities.

The Demanding Task

The report of that committee emphasizes the demanding task that will confront fiscal and monetary policies once a secure peace permits demobilization. The resources freed from war must not—and need not—be squandered in idleness. Rather, this manpower and material should be promptly enlisted in the service of peaceful progress. In addition to its immeasurable human benefits, peace will provide an economic dividend to the nation and to the Federal budget. But that dividend is dwarfed by the urgent needs of our society. The nation will have to weigh the priorities among attractive programmes carefully and wisely to take full advantage of this dividend. High on the list of priorities is the commitment to provide equal and full economic opportunities for all our citizens.

Our international accounts were in balance in 1968—for the first time since 1957. Much of the improvement came from the programme I announced in an atmosphere of world financial crisis a year ago. The contrast today is striking and gratifying.

The excellent results of last year were aided by temporary factors. Hence, we cannot relax our efforts to achieve fundamental improvement—especially in our disappointing trade performance. To strengthen our trade surplus and achieve a healthy balance of payments, we must

—Restore price stability at home,

—Encourage our farms and factories to become ever more competitive in quality and price so that they can export more,

—Intensify efforts to secure the removal of barriers to freer trade,

—Bring more foreign tourists to our shores to enjoy America with us, and

—Minimize the foreign exchange cost of our military commitments and economic aid overseas.

Our temporary programmes to restrain capital outflows worked well in 1968. American businesses showed remarkable ingenuity and co-operation in pursuing their activities abroad while drastically cutting the drain on the nation's balance of payments. These programmes clearly aided in preserving the strength of the dollar.

Capital restraints should never become permanent features of our economy. They should be ended as soon as possible. But the war continues and the movement toward non-inflationary prosperity has just begun. We cannot now scrap our defences against large capital outflows. For the present, we must

—Renew the interest equalization tax before it expires on July 31,

—Maintain the direct investment control programme in the more flexible form recently announced, and

—Continue the Federal Research Programme of voluntary restraint of foreign lending.

To maintain our gains, ever closer international co-operation is needed among the highly interdependent nations of the world. Countries in deficit must meet their responsibilities. And countries in surplus must also pursue appropriate policies—striving especially for rapid economic expansion and giving world traders greater access to their markets.

International Monetary System

The international monetary system was strengthened in 1968. An historic international agreement was reached, creating in the International Monetary Fund a new reserve asset—the Special Drawing Right. We spent three years studying, exploring and negotiating with our commercial partners in order to reach this agreement. I eagerly await the day that actual distribution of SDR's will begin. They can meet the future needs of the world for international liquidity—in the proper amounts and in a usable form. I am proud that the United States acted so promptly to ratify this agreement with such overwhelming bipartisan support in the Congress.

Some did not believe that such an agreement was possible, arguing that a rise in the official price of gold was the only way to increase international reserves. We and our trading partners rejected this futile course; it would have offered a ransom payment to speculators and would have failed to provide for the orderly growth of reserves. I have carried out my pledge that the United States would sell gold to official holders of dollars at 35 dollars an ounce. There is clearly no need to change that price.

Myths about gold die slowly. But progress can be made —as we have demonstrated. In 1968, the Congress ended the obsolete gold-backing requirement for our currency.

Another major step in freeing the international monetary system from disturbances by gold speculators was taken in March, when the United States and the other active gold pool countries agreed to cease supplying gold to the private market. The resulting two-price system for gold is working successfully. The international economy has made major strides in the past. But we must recognize the problems that remain. The financial crises of 1968 stimulated constructive discussion of many proposals for further evolutionary improvements in the international economic system.

These proposals are not an agenda for action in a week

or a month or even a year. The issues posed cannot be resolved in a summit meeting or by a superplan. But they can be tackled effectively with the same kind of careful study and negotiation that led to the successful SDR plan. The United States should actively participate in such a procedure in order to strengthen the foundation of the world economy.

World trade has continued to expand briskly—virtually unaffected by the sporadic crises in financial markets. Tariff barriers that once stifled international commerce have been substantially lowered—most notably by the Kennedy Round reductions which began in 1968 and will continue until 1973. We must reinforce this success by devoting equal energy to the removal of non-tariff barriers.

While we work to reduce trade barriers, we must not drop our guard against the advocates of protectionism at home and abroad. We will never neglect this legitimate concerns of any citizen. But the only real solutions are ones that improve our economy—not ones that erect new barriers that could provoke retaliation, or insulate producers from the invigorating force of world competition. To provide the right kind of aid to those seriousy hurt by import competition, present provisions for temporary adjustment assistance must be liberalized, as I have repeatedly recommended.

Important economic progress is being made in the world's less developed countries. The beginnings of spectacular advances in world agriculture are now clearly evident. Family planning is gaining widespread support. The United States can and should help to promote further progress in world agriculture and family planning, and the achievement of more rapid economic growth in the less developed countries. Only if funds for foreign aid programmes are restored to an adequate level can we do our part.

The United States has long supported multilateral assistance as an equitable and efficient means of channeling aid from wealthy to poorer nations. We must reaffirm this support by promptly authorizing the US contributions to the replenishment of the International Development Association and to the special funds of the Asian Development Bank.

The American economy has been steadily on the march in the 1960s. It has shattered all records for progress toward the Employment Act's goals of "maximum employment, production, and purchasing power". It has bestowed great blessings of abundance on the vast majority of Americans in all walks of life.

As the average American's standard of living soared, we could afford to focus on new challenges. Facing these issues squarely has in itself been a great accomplishment. We have marshalled our determination to provide a good job, a decent standard of living, quality education, and a pleasing environment for everyone. We have begun to make progress toward these new aspirations. But we have only begun. And because we have so far to go, many of us are impatient. This feeling is in the great American tradition. High aspirations and impatience have constantly spurred us to greater achievements. And they will again. Our economy will not rest on the laurels of the 1960s. We will not relax to count or consolidate our gains. We will not retreat from the unprecedented prosperity we have achieved. This nation will remain on the march.

Indo-Bulgarian Trade Relations

DIMITER SHOPOV

DISTANCE HAS proved to be no obstacle in the promotion of economic relations between Bulgaria and India. The first Trade Agreement was signed on April 16, 1956. It was followed by a Trade and Payments Agreement on March 29, 1958, and by a number of new long-term trade and payments agreements. The two governments signed a trade and payments agreement in Sofia on October 18, 1968, for the period 1969-73. As in the past, payments will be made in inconvertible rupees. Two commodity lists are annexed to the 1969 agreement for a total of 190 million rupees each way.

Bulgaria exports to India principally carbamide, sodium nitrate, sodium nitrite, tetracyclin, analgin, chemicals, drugs and medical preparations, synthetic yarns, cranes, various types of steel and steel sheet, machinery and industrial installations, television and wireless sets. Indian supplies to Bulgaria include jute products, tea, coffee, spices, peanut cake, coconut fibre, skins, hides, shoes, steel and rolled metals, dump trucks and bus chassis.

On May 2, 1967, Bulgaria and India signed at New Delhi an Economic and Technical Co-operation Agreement according to which Bulgaria is to give India long-term credits for the purchase of equipment for new industrial projects. Bulgarian specialists of the food industry have made market surveys in India in search of new sources of raw materials, storage facilities, plants and factories so that India might be helped in building modern plants and factories for essential oils, tomato paste, tomato juice, fruit and vegetable canneries, etc. The Bulgarian foreign trade enterprises 'Technoexport' and 'Agromachinaimpex' are negotiating collaboration agreements for the production of tractors BOLGAR TL-30-A and TK-224-D and certain other agricultural machines. Negotiations are under way for the production in India of the Bulgarian 50cc moped 'Balkan'.

Under the proposed scheme, Bulgaria will supply India with eight plants for dry fruits and vegetables, two vegetable and fruit canneries, a plant for sulphuric acid using pyrite as basic raw material, a factory for gammaglobulin and albumin, a factory for starch and glucose, a plant for sterilizing pea preserves, and an installation for tomato paste and tomato juice. Representatives of the two countries are discussing the supply of four other plants for dry fruits and vegetables, four cannery installations, two starch factories, four plants for essential oils, three winery installations, a pectin factory, a flotation plant and complete installations for other branches of production.

Bulgaria has provided to India advisers on fruit-growing, viticulture, market-gardening and sheep farming. Co-operation in this field can be usefully extended.

The Bulgarian Industrial Exhibition which was held at New Delhi in November, 1967, gave a wide circle of Indian specialists, representatives of scientific institutes, business executives and the public at large an idea of Bulgaria's export potential in the field of mechanical and electrical engineering, instrument building, chemicals and pharmaceuticals, light industry and cultural development programmes.

In February and March of 1968 Bulgarian foreign trade enterprises took part in the Madras International Fair. Their displays included machinery and industrial equipment, chemicals, drugs and original Bulgarian patent medicines, instruments and products of radio and electronic engineering. Practical demonstrations were given of the operational capacities of the Bulgarian tractors BOLGAR TL-30-A and TK-224-D, of various agricultural machines, metal-cutting machines and complete units with programme control, gear cutters, flat grinders, textile frames and looms, installations for the food and light

industries, wireless and television sets, transistorized units and products of the Bulgarian electronic industry.

The Prime Minister of India, Mrs Indira Gandhi, visited Bulgaria in October 1967. Her visit and the talks with the Indian Minister for Industrial Development Mr Fakhruddin Ali Ahmed and his colleagues did much for the promotion of closer co-operation between India and Bulgaria. Several Bulgarian delegations have visited India, exploring new opportunities for the expansion of trade.

The trade between the two countries has grown appreciably, and in 1966 the volume of trade turnover was nearly 10 times the 1960 level. There have been numerous visits of economic delegations and representatives of business circles to each other's country bringing the two countries closer in the sphere of economic collaboration. It is heartening to note that along with the economic progress of the two countries, the pattern of trade between them is undergoing considerable change. Bulgaria is increasingly importing industrial and manufactured goods from India. At the 1966 Plovdiv Fair an order for 500 dumper trucks valued at about Rs 2 crores was placed with the Tatas.

A landmark in the ever growing friendly relation between the two countries was the visit of Prime Minister Indira Gandhi to Bulgaria in 1967. It was indeed a great occasion; as she was the first Prime Minister of India to visit Bulgaria. The love and respect for the Indian people was amply displayed by the Bulgarian people who offered the visiting Prime Minister of India a tumultuous welcome. During her brief stay the Indian Prime Minister had talks with the Prime Minister of Bulgaria, Todor Zhivkov, and other Ministers and high officials. The joint communique issued at the end of the visit stressed the friendship between the two countries and reiterated the common viewpoints on a number of important international problems including Vietnam and West Asia.

Not only have the two countries come closer in the economic field but in the field of culture as well they have come nearer to each other. Bulgarian publishing houses regularly publish works of important Indian authors. The famous book 'Discovery of India' by Jawaharlal Nehru went into several editions. The name of the great Indian poet and philosopher, Rabindranath Tagore, is popular with the Bulgarian readers.

New System of Management in Bulgaria

DOBRI BRADISTILOV

SINCE THE beginning of 1968, the entire economic life of Bulgaria was organized according to the principles and mechanisms of the new system of management of the country's economy. The experimental phase of this system, which was carried out during a period of four years, produced the anticipated results. The gradual implantation of the new forms of organization in all sectors of production permitted the erection of a unified system, both in respect to theory and the methods of organization and management.

During the last few years the development of the country's economy was directed to a strictly defined goal. The utilization mainly of the intensive factors was dictated by the technical and scientific revolution which is under way all over the world, as well as the expansion of the all-round collaboration of Bulgaria with the other socialist countries, the developing countries and the industrially advanced countries of the world. This was made possible due to the successes achieved by Bulgaria, both in industry and agriculture.

Regimentation Discarded

The dynamic and rapid development of the country's economy presupposed the erection of such a system of management, which should correspond to the level and standard of that development. The excessively centralized regimentation and rigid planning of the activities of the various manufacturing units went against the requirements of contemporary economic science and the official economic policy of the Bulgarian government. The increased experience of workers and managers, and the clearly expressed tendencies of development of socialist democracy, required new forms and methods of organization and management of national economy.

The new system takes advantage of and develops further all positive sides of the planned management of an economy. The new system takes into account the achievements of technical progress and creates the necessary economic conditions for their implantation in all fields of national economy.

The national economic plan has now become a complex programme for social, economic, and cultural development of socialist society. The number of the centrally-planned indices has sharply decreased. Imperative indices in the new system remain. Only such indices are binding which are responsible for the main sectors of the national economy. The realization of the plan is determined not only by the binding force of these indices, received centrally, but by its material and financial provisions also. The reserves, which are envisaged to be accumulated in the country's national economy, will continuously assure and guarantee the various enterprises with the necessary raw materials.

In future all the basic funds of the different enterprises will be derived from their own earnings, from bank credits, and only by way of an exception, from the state budget. Only large industrial enterprises, which have a determined and explicit importance for national economy, will be erected through allocations from the state budget. The enterprises now acquire the right to determine their own plans in a frame set by the central state planning organizations. This creates the possibility and the obligation on the part of an enterprise to harmonize the interests of its workers and employees with the interests of society. At the same time, it is the obligation of the management to make the enterprise profitable, which is of course the basic index of the activity of all production and commercial enterprises. The volume of the wage fund of each enterprise is determined by the quantitative indices and the appraisal which the consumers give to the respective products which are put on sale in the markets. The wages are determined by the quantity and quality of labour in accordance with the realization of all problems assigned to each enterprise as a whole. At present, more than ever before, all producers are to take into consideration the requirements of the markets. This imposes on them the obligation to implant the latest achievements of technical progress, to improve productivity, to improve the quality of the products, and above all to create the proper conditions for raising the productivity of labour. In this manner, the new system of management of the national economy co-ordinates the planning principle with the mechanisms of the market.

In 1968 nearly 60 per cent of the Bulgarian industrial enterprises had adopted the new system of economic planning and management. The results were more than encouraging. The enterprises concerned increased the volume of production and improved the quality of the goods produced. This meant an increase in labour productivity and a higher rate of profit. The workers and employees received increased pay through larger bonuses. Many of the enterprises were able to start their own funds from accumulations resulting from the profitable marketing of their products. Generally speaking, the profits of enterprises using the new system of economic planning and management have been much higher than those of enterprises still carrying on under the old system.

The moving finger writes

THE PRIME Minister is undoubtedly the best electioneer that the Congress party has got—and perhaps the country. This is quite simply because she can attract larger crowds across the land more frequently than any other politician on the scene. This situation, naturally, has a certain predictable psychological impact on her Once she begins to smell an election campaign in the air, Mrs Gandhi's ego gets automatically inflated to several times its normal size. She becomes assertive in her arguments even to the point of becoming unnecessarily aggressive. Curiously enough this seems to help her by creating an impression in the public mind that the Prime Minister has gained in self-confidence. Quite possibly this explains why so many people are now saying that Mrs Gandhi seems to have become a new person lately.

With four states scheduled to go through a mid-term poll next month, electioneering is in full swing again in a fairly big way. Mrs Gandhi, naturally, wants to be at the centre of the Congress campaign in these states and is busy travelling and addressing meetings. In doing this she is very much in her element. The magic of mass appeal, of which I spoke earlier, is at work on her. We may, therefore, expect to hear from her, between now and the polling, quite a few "obiter dicta" on most matters under the sun.

* *

I am glad that Mr C. C. Desai has taken up the challenge implicit in the Prime Minister's contention that she is no prisoner of indecision. Mr Desai has quoted chapter and verse to show that the Prime Minister has been avoiding taking decisions which, in the ultimate analysis, fall squarely within her area of responsibility. In economic as well as political affairs, the Prime Minister has become a practitioner, reluctant or otherwise, of the far-from-fine art of "parkalam".

In this connection, I am tempted to refer to the curious affair of Mr J. R. D. Tata's reported remarks at a recent meeting of the Central Advisory Council of Industries. According to accounts in the newspapers, Mr Tata commented with biting sarcasm on the vacillations and delays attendant on government consideration of industrial projects. Mrs Gandhi was taken up on this by journalists who had gone to Palam airport to see her off to London to attend the Commonwealth Prime Ministers' Conference. She was reported to have replied that Mr Tata had told her that he did not make the critical observations attributed to him.

It is not often that businessmen find it necessary to accuse the press of incorrectly reporting them, although it is well known that politicians frequently enter a plea of this kind. Perhaps, with so many ministers fancying themselves as entrepreneurs, industrialists sometimes find it convenient to play at being politicians. May I add that even if Mr Tata did not say what the press said he did, what he was supposed to have said so clearly needed saying that he ought to have said it?

For the benefit of such of my readers as may be wondering what I am talking about, I reproduce the following news item dated January 3 from the 'Times of India' of January 4:

"Mr J. R. D. Tata today pleaded with the Government to 'return to those days of innocence' when decisions on vital questions were taken in a month or so.

"Mr Tata, who was speaking at the Central Advisory Council of Industries, recalled that the Government made up its mind within a month in 1947 on setting up Air-India International.

"When at his meeting with a Union Cabinet Minister yesterday, Mr Tata cited this as an example of quick decision, the Minister remarked: 'We did not know much about these things then. Now we have become wiser with experience.'

" 'Let us return to those days of innocence', the eminent industrialist said amidst laughter from other members of the council."

One of the sins of omission which Mr C. C. Desai cited in support of the charge of indecision he had levelled against Mrs Gandhi was that she had been delaying unduly the appointment of ministers of cabinet rank in the vacancies caused by the resignations, at various times, of Mr M. C. Chagla in the Ministry of External Affairs, Mr Asoka Mehta in the Ministry of Petroluem and Chemicals and Dr Chenna Reddy in the Ministry of Steel, Mines and Metals.

I agree that it does not speak well at all of the Prime Minister that she should allow such important responsibilities to be inadequately looked after. I am aware, of course, that, so far as External Affairs are concerned, she has appointed herself as her own Foreign Minister, but this is an arrangement which is clearly straining her powers of governmental leadership which are by no means unlimited. As for the other ministries, the present arrangement is obviously unfair to the ministers of state who have been left thrashing about helplessly in uncertain waters.

Apart from filling up ministerial vacancies which ought to have been taken care of promptly, Mrs Gandhi has been outrageously remiss in dealing appropriately with ministers who are obvious misfits in their present portfolios. The case of Mr Fakhruddin Ali Ahmed leaps to the eye—and there may be others. The continuance of the present Minister for Industrial Development in a job the challenges of which he dare not face and the obligations of which he does not even care to comprehend underlines the Prime Minister's casual disregard of the much-publicised commitment of her government to promote industrial expansion.

In view of the fact that the West German mark was revalued by five per cent in 1961, when Prof. Ludwig Erhard was the minister responsible for this decision, his views on the recent international controversy over a further revaluation of this currency are of some interest. In an article which he has contributed to the latest issue of 'Lloyds Bank Review' on "Prospects for European Integration", Prof. Erhard, after referring to the 1961 revaluation to emphasise the point that he cannot be suspected of failing to understand how important it is to square the balance of payments, fully supported the West German government's decision not to raise the current par value of the D-Mark. His contention is that the revaluation of strong currencies enables those with relatively weaker economies to refrain from necessary reforms. Prof. Erhard, in other words, does not approve of the D-Mark being revalued merely as a rescue operation for the franc or the pound.

V.B.

Company Affairs

HINDALCO PREFERENCE ALLOTMENT

THE RECENT issue of 9.3 per cent preference shares worth Rs 1 crore by the Hindustan Aluminium Corporation Ltd, has been oversubscribed. The company has decided to allot fully in respect of applications for five to 100 shares. The allotment will be 90 per cent for applications for 101 to 600 shares, 85 per cent for 601 to 1,000 shares, 80 per cent for 1,001 to 2,500 shares, 75 per cent for 2,501 to 4,000 shares, 70 per cent for 4,001 to 5,000 shares, 60 per cent for 5,001 to 6,000 shares and 50 per cent for 10,000 shares or more. Existing preference and equity shareholders will get a preferential allotment on a 'pro rata' basis in terms of the prospectus.

GLAXO ALLOTMENT

The Glaxo Laboratories (India) Ltd, has finalised the basis of allotment of equity shares offered to the public recently. According to the company's decision, two out of every nine applicants for 50 shares, two out of five applicants for 100 shares, three out of five applicants for 150 shares and four out of every five applicants for 200 shares will receive 20 shares each by lot. The applicants for 250, 300, and 350 shares will each get 20 shares. Applicants for each succeeding set of three share groups, rising by 50 shares per group, will get 10 shares more than the preceding three groups, so that the applicants for the last three groups of shares viz. 4,900, 4,950 and 5,000 shares will each receive 330 shares. Those who have applied for more than 5,000 shares will get a firm allotment, the allotment of shares varying from about seven per cent for applicants for 5050 shares to four per cent for applicants for 50,000 shares or more. The total number of shareholders will exceed 55,000.

MOTOR INDUSTRIES COMPANY

The Mysore branch of the Central Bank of India Ltd on behalf of certain constituents of the bank offered for sale 22,000 equity shares of Rs 100 each at Rs 170 per share of Motor Industries Co. Ltd the whole amount being payable on application The purpose of the offer is to enable the company to have its shares listed on the Bombay Stock Exchange for cash dealings. The offer was open from January 11 to January 23, though the offer could be closed earlier but not before January 15. 1969. These shares will be eligible to receive the final dividend that may be declared for 1968 by the middle of this year. An interim dividend of 10 per cent taxable has already been paid. It has been stated that sales and earnings for the year ended December 31, 1968, were quite satisfactory. During 1967 sales were Rs 10.49 crores against Rs 10.06 crores in 1966. The net profit, before depreciation and taxation amounted to Rs 379.80 lakhs against Rs 377.93 lakhs. The amount set aside for depreciation was Rs 47.80 lakhs and taxation Rs 1.90 crores. The transfer to development rebate reserve was Rs 15.28 lakhs. The amount required for the equity dividend was Rs 65.63 lakhs. As the balance of Rs 61.09 lakhs was transferred to reserves, the equity dividend was amply covered. It has been stated that with the completion of expansion schemes there will be a further increase in turnover in the coming years.

PAPER PRODUCTS

Paper Products Limited offered for public subscription 13,000 (9.5 per cent) cumulative redeemable preference shares of Rs 100 each at par. The subscription list opened on January 22 to close on January 31 or earlier but not before January 27. The proceeds of this issue will be utilized for its working capital which has increased following the expansion of the company's business and also to broadbase its capital structure. The company has an authorized capital of Rs one crore and an issued and paid-up capital of Rs 72 lakhs. The company has been engaged in the manufacture and sale of flexible packaging materials and has three units situated at Thana, Faridabad and Madras. The company has also set up a pulp and paper making plant at Roha, District Kolaba, Maharashtra, which produces special varieties of paper consumed by the flexible packaging plants. The company proposes to increase the production capacities of its flexible packaging plants at Thana, Faridabad and Madras as also the pulp and paper making unit at Roha. The company has acquired more than 90 per cent of the equity capital of Premier Paper Mills Ltd and the plant has been shifted to Roha for better and more efficient working. The company's sales during the past five years have increased from Rs 193 lakhs to Rs 371 lakhs.

UNITED COMMERCIAL BANK

The directors of United Commercial Bank have decided to recommend to the shareholders, at the next annual general meeting, the payment of final dividend for the year 1968 at eight per cent (i.e., Rs 4 a share) less tax, making a total of 14 per cent (i.e., Rs 7 a share), less tax. This will be paid out of the special reserve and the balance of Rs 29.11 lakhs will be carried forward, subject to payment of bonus to staff. The net profit of the bank for the year ended December 31, 1968, after taxes, subject to audit, including Rs 4.91 lakhs brought forward from the previous account amounted to Rs 85.31 lakhs. A sum of Rs 17.00 lakhs has been transferred to reserve fund raising it together with the share premium account to Rs 4.07 crores. The directors have transferred Rs 22.40 lakhs to special reserve. The interim dividend of six per cent (i.e., Rs 3 a share) less tax, absorbed Rs 16.80 lakhs.

INDIA JUTE

The preliminary results of the India Jute Company Limited revealed a surplus profit of Rs 12.65 lakhs for the year ended March 31, 1968. After providing Rs 18.06 lakhs for depreciation, bringing forward the balance from the previous year of Rs 2.66 lakhs and adding Rs 13,601 being item relating to previous years, there was a debit balance of Rs 8.21 lakhs. A sum of Rs 2.33 lakhs was transferred from development rebate reserve, leaving a net debit balance of Rs 5.88 lakhs to be carried forward. The directors proposed to skip the dividend again for the year. The last dividend of six per cent was paid for 1965-66.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 14 companies to raise capital amounting to over Rs 3.77 crores. Ten of them are to issue bonus shares. The amount of bonus shares ranges between Rs 50,000 and Rs 26.39 lakhs. Following are the details.

Northern India Engineering Co. Private Ltd, Delhi, has been given consent to capitalise Rs 50,000 out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two equity shares held.

Morarji Dorman Smith Ltd, Bombay, has been granted consent to capitalise Rs 1,17,500 out of its general reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of 47 for 113 equity shares held.

Rockwill Industries Private Ltd, Madras, has been accorded consent to capitalise Rs 1.48 lakhs out of its free reserve and issue fully-paid equity shares of Rs 1,000 each as bonus

shares in the ratio of one for every two equity shares held.

Coimbatore Premier Corporation Private Ltd, Coimbatore, is permitted to capitalise Rs 2,10,600 out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every two equity shares held.

Aryan Mining and Trading Corporation Private Ltd, Calcutta, is given consent to capitalise Rs 2.5 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every two equity shares held.

Industrial Machinery Manufacturers Private Ltd, Ahmedabad, has been given permission to capitalise Rs 2.5 lakhs out of its general reserve and issue fully-paid equity shares of Rs 500 each as bonus shares in the ratio of one for four equity shares held.

Groz-Backert Saboo Ltd, Delhi, is accorded consent to capitalise Rs 7.5 lakhs out of its general reserve and issue 75,000 fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for three equity shares held.

Mukand Iron and Steel Works Ltd, Bombay, is given consent to capitalise Rs 61,16,670 out of its general reserve and issue fully-paid equity shares of Rs 10 each in the ratio of 49 equity shares for every deferred share held.

The Tata Oil Mills Co., Ltd, Bombay, has been granted 'no objection' to issue capital of Rs 100 lakhs in 10,000 debentures (1981-84) of Rs 1,000 each, carrying interest at 7.75 per cent per annum, for cash at par, to be offered to the public through a prospectus. The debentures are payable to registered holders only. The proceeds are to be used to meet cash shortfall for financing expanding activities of the company.

Bombay Board and Paper Mills Private Ltd, Bombay, has been granted consent to capitalise Rs 60,000 out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for four equity shares held.

Sudarshan Chemical Industries Private Ltd, Poona, has been accorded consent to capitalise Rs 2.25 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for twenty equity shares held.

Wheels India Ltd, Madras, has been given consent to capitalise Rs 26,38,700 out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for five equity shares held.

The Mahendra Mills Ltd, Ahmedabad, having a paid-up capital of Rs 116.91 lakhs, is permitted to issue further capital of Rs 80 lakhs in 55,000 equity shares and 25,000 cumulative redeemable preference shares (9.5 per cent) of Rs 100 each, to be issued for cash at par. The proceeds are to be utilised for financing working capital of the company.

Jaipuria Samla Amalgamated Collieries Ltd, Calcutta, is granted consent to issue equity shares of Rs 90 lakhs for consideration other than cash to the shareholders of Ganesh Sugar Mills Ltd, Calcutta and Shree Anand Sugar Mills Ltd, Calcutta in pursuance of the scheme of amalgamation sanctioned by the Calcutta High Court.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the fortnight ended November 23, 1968. The list con-

tains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting—and annual installed capacity.

During the Week ended November 16, 1968

LICENCES ISSUED

Telecommunications

M/s O/E/N India Ltd; 27/142A, Padiyath Rd; Ernakulam South, Cochin-16. (Kerala)—Relays—1,50,000; Switches—3,00,000; Quartzcrystals, Filters and Oscillators—1,20,000. (N.U.).

Textiles

M/s New Central Jute Mills Co. Ltd, 11, Clive Road, Calcutta-1. (West Bengal)—Jute Carpet Backing Cloth—100 broad looms to produce 5080 tonnes of carpet backing cloth—(450 broadlooms—after expansion). (S.E.).

Food Processing Industries

M/s Kunjbihari Roller Flour Mills, Vejalpur Road, Godhra (Gujarat)—Wheat Products—14040 tonnes (on three shift basis) (C.O.B.); M/s Gujarat Roller Flour Mills, Krishna Mansion, Kalupur, Ghee Babar, Ahmedabad. (Gujarat)—Wheat Products—15,000 tonnes. (C.O.B.).

LETTERS OF INTENT

Machine Tools

M/s Mysore Kirloskar Ltd; Yantrapur P.O., Harihar. (Mysore)—High Speed Threading Machines—12 machines (worth Rs 13 lakhs). (N.A.); M/s Chika Ltd; Machinery Sales Deptt., Mehta Chambers, 13, Mathew Road, Bombay-4. (Maharashtra)—Complete Plants for Plastic Extrusion—100 nos. (worth Rs 104 lakhs); Synthetic Fibre and Filament Spinning—5 tonnes (worth Rs 200 lakhs). (N.U.).

LICENCES REVOKED OR SURRENDERED

(Information pertains to particular licences only)

M/s Shri Dinesh Mills Ltd; Baroda—Cotton Waste Blankets; M/s Sri Annapurna Cotton Mills Ltd., Calcutta-1.—Processing of Cotton Textiles; M/s East Anglica Plastics (India) Ltd, Calcutta-16—Cellulose Acetate Flakes; M/s May & Baker Ltd, Bombay-78—Chloroquine Sulphate; M/s Geoffery Manners & Co., Ltd, Bombay-77—Calcium Caseinate; M/s Kanyapur Machine Tools Ltd, Calcutta-1—Centre Lathes; M/s L. N. Nevatia, Maharashtra—Cotton Yarn; M/s L. N. Nevatia, Maharashtra—Cotton Cloth.

During the Week ended November 23, 1968

LICENCES ISSUED

Chemicals

M/s Suhrid Geigy Ltd; P.O. Box No. 48, Wadi Wadi, Baroda. (Ranoli, Near Baroda, Gujarat)—Phthalate Plasticizers—2,550 tonnes. (N.A.).

Dyestuffs

M/s Atul Products Ltd, P.O. Atul, Via: Bulsar, (Gujarat)—Reactive Dyes, Intermediates etc—Schedule I: Amino-G-Acid—Monopotassium Salt—7,600 kgs; 3-Aminoacetanilide—4-Sulphonic Acid—4,000 kgs; P-Ami-noacetanilide—3-Sulphonic Acid—4,100 kgs; O-Aminophenol-4—Sulphonic Acid—5,600 kgs; Aniline-2:5—Disulphonic Acid—4,400 kgs; Aniline-3:5—Disulphonic Acid—800 kgs; N-Benzoyl-H-Acid—3,300 kgs; Bromamine Acid—11,100 kgs; 6-Chloro-2-Amino-Phenol-4—Sulphonic Acid—7,200 kgs; 4-Chloronitrobenzene-3—Sulphonic Acid—5,200 kgs; 6-Chloro-2-Nitrophenol—4-Sulphonic Acid—10,200 kgs; Cresidine—2,300 kgs; Dibenzylsulphanilic Acid Free Acid—15,500 kgs; N-Methyl J. Acid—12,500 kgs; 2-Naphthylamine-1:5—Disulphonic Acid—14,500 kgs; 2-Naphthylamine-3:6:8—Trisulphonic Acid—8,100 kgs; 4-Nitro-2'—Aminophenol—4,100 kgs; 4-Nitro-4'—Aminostilbene-2:2—Disulphonic Acid—14,000 kgs; P-Nitroaniline-2—Sulphonic Acid—4,600 kgs; Nitrobenzene—3:5—disulphonic Acid—1,000 kgs; 3-Nitro-p-Cresol—3,400 kgs; O-Nitrophenol-p-sulphonic Acid—7,500 kgs; m-Phenylenediamine-4-Sulphonic Acid—15,100 kgs; 5-Sulphoanthranilic Acid—4,200 kgs; 1-Sulpho—J Acid—15,300 kgs; 1-(p-sulphophenyl)—5-pyrazolone-3-carboxylic Acid—12,900 kgs; m-Ureidonailine—3,400 kgs. Schedule II: Amido-J-Acid—96,700 kgs; 4-4'—Dinitrostilbene-disulphonic Acid—14,000 kgs; G-Acid—8,800 kgs; H-Acid—46,300 kgs; J-Acid—54,100 kgs; P-Nitrotoluene-sulphonic Acid—19,600 kgs; Tobias Acid—110,800 kgs. (N.A.).

LETTERS OF INTENT

Machine Tools

M/s Star Textile Engineering Works Ltd, Planet Mill Street, Fergusson Road, Lower Parel, Bombay-13. B.C. (Manpada Bhopar, Near Dombivali, Distt. Thana, Bombay, Maharashtra)—Multi-Spindle Drilling Attachments Suitable for Drilling Machines—1000 numbers (worth Rs 30 lakhs). (N.A.)

Trade Winds

EMPLOYERS ON BONUS ORDINANCE

WHATEVER MIGHT have been the compulsion for enlarging the share of the allocable surplus for the purpose of computing the bonus, there was clearly no justification for the haste with which the government has sought to accomplish it, stated the Employers' Federation of India recently. In any case, an ordinance under Article 123 of the Constitution to amend Section 5 of the Bonus Act so as to achieve this was certainly not called for, especially when the affected interests—the employers—had telegraphed to the authorities to await their representation. The federation had requested the authorities to wait at least till its memorandum on the subject reached the government and the latter had enough time to go through and give it careful consideration.

By and large, the decision of the authorities is not only contrary to the intention of the Bonus Commission and Parliament but also to the spirit of the recent judgment of the Supreme Court in the case of the Metal Box Company of India Ltd. The Bonus Commission was quite cognisant of the fact that the employers stood to benefit from the tax relief on the amount of bonus payable under the Bonus Act, and if, in spite of it, it did not consider it necessary to deprive them of this relief, it was because the Bonus Commission wanted whatever amount such relief might represent to be utilised for rehabilitation, one of the considerations that prompted it incidentally to turn down the request of the employers to regard rehabilitation allowance as a first charge. In agreeing with this view, Parliament also rejected rehabilitation allowance as a prior charge, a point that was amply clarified by the Supreme Court in the case of the Metal Box Company referred to above. The Supreme Court held that Parliament did not lay down that the bonus is to be deducted before computing the amount on which direct taxes are to be calculated, evidently because it wanted the rebate in income-tax on the bonus paid to go to the employers to enable them to recoup, in this way, depreciation on account of obsolescence, as also rise in replacement costs over a period of years. By undoing this, the authorities have rendered the task of rehabilitation and modernisation difficult to employers. Although the amendment as proposed by the ordinance will apply to the accounting year 1968-69 and not with retrospective effect (a small mercy indeed)—and does not change either the minimum (4 per cent) or the maximum (20 per cent) limits laid down under the Bonus Act, the actual amount available as bonus to workers will be more. The employers have, therefore, every justification, to describe the ordinance as unwarranted, unfair and inequitous.

I.D.A. CREDIT

The International Development Association, World Bank's soft lending affiliate, has extended a $125 million credit to our country to enable her to import components and materials needed by industry and agriculture. This is the first loan by IDA since December, 1966. The loan would be for a term of 50 years with a ten-year grace period during which it will carry no interest but service charges of three quarters of one per cent to cover IDA's administration costs. The loan can be used to import production materials and components required by our manufacturers of priority capital goods and agricultural chemicals. These would include such materials as commercial vehicles, agricultural tractors, machine tools, electrical equipment, cables and wires, fertilisers, pesticides and similar products.

PRIVATE INVESTMENT COMPANY

A group of financial and industrial concerns in the US, Europe, Canada, Australia and Japan has formed a private investment company for providing equity capital and medium-term loans for the setting up of new enterprises and the expansion and diversification of existing companies in the developing nations of Asia. The multi-national corporation—Private Investment Company for Asia (PICA)—will be capitalised at $40 million, of which about $17 million will be paid in. This sum will be divided equally between US and Japanese investors and a third group from Europe, Canada and Australia. PICA has received acceptance to its invitations to subscribe from approximately 120 of the leading financial institutions and corporations in the three groups. It is stated that emphasis will be placed on investments in private enterprises in manufacturing, forestry, agriculture, fishing and other industries which have a profit-making potential and will contribute to the economic development of Asia.

TYRE EXPORTS

Dunlop India's direct exports in 1968 are estimated at Rs 2.51 crores, which represent an increase of nearly 11 per cent over the 1967 export figure. This is the highest export ever made by a tyre company in this country. In 1968, Dunlop India exported to 43 countries in the world. Exports were made for the first time to eight new countries, including West and East Germany, Canada, Turkey, Panama, Nicaragua, Somali and Honduras. Dunlop India secured in 1968 record export orders from Yugoslavia valued at more than Rs one crore. Dunlop's export agreement of Rs 80 lakhs with Autocentar, Yugoslavia, is the biggest single export order booked by a tyre company in this country. In addition to automotive and cycle tyres, export of industrial products increased substantially during the year, and large orders for fan and vee belts were received from countries in south-east Asia and west Asia.

CAPITAL ISSUES

The union government has accepted all the major recommendations of the Capital Issues Advisory Committee for liberalization of control over corporate capital issues. The new capital issues policy, embodying the government's decision on the suggestions of the Advisory Committee, is expected to be announced shortly. The details of the policy are being finalized by the Finance Ministry in consultation with the Ministry of Law. The government has agreed with the committee's suggestion that, subject to the fulfilment of certain criteria, companies need not seek specific sanction for their capital issues. The criteria suggested by the committee are: new equity issues should be at par; the ratio of preference to equity shares should not exceed 1:1; the equity-debt ratio should not exceed 1:2; preference issues should be at par and carry a dividend of 9.5 per cent; and debenture shares should carry a maximum interest of 7.75 per cent. The government has also accepted the suggestion that capital issues at a premium and all bonus issues should continue to get prior approval of the Controller of Capital Issues.

U.N.D.P PROJECTS

The Governing Council of the UN Development Programme which met recently, has earmarked $4 million for pre-investment projects in the field of fisheries, agriculture, education and family planning in this country. Announcing this at a press conference in New Delhi recently, the Resident Representative of the UNDP, Dr John McDiarmid, stated that pelagic fishery investigation on the south-east coast would entail a total expenditure of about $2.95 million. Of this the UNDP contribution would be a little over $2 million while the balance would be met by our government. This programme was expected to be completed in five years.

To assist the government in its high-yielding varieties programme of foodgrain production through farmer training,

the UNDP has approved a project of farmer training and functional literacy. The UNDP contribution to this two-and-a-half-year project will total $1.5 million and that of our government nearly $6 million. A total expenditure of $1.10 million is proposed to be incurred on a four-year project which is meant to train apprentices for the catering industry and assist in the establishment of five food craft centres. Of the total expenditure, the UNDP will contribute $0.22 million, and the rest will be borne by our government. Another scheme approved by the UNDP council refers to a running scheme meant to complete the switchgear laboratory of the power engineering programme organisation, Bhopal.

TYRES AND TUBES

Tyres and tubes of all categories of automobiles including buses, jeeps, vans, trucks and tractor trollies have now been declared as essential commodities. The government had declared last year tyres and tubes of cars and tractors only as essential commodities, but on representation by several state governments other categories have also now been brought under the purview of the Act. This will enable the state governments to regulate the distribution of stocks of tyres and tubes supplied into the state. They can also allocate for ancillary industries. The delegation of powers is subject to the limitation that the state governments would not issue any order under this Act which would interfere with inter-state transport or distribution

JAPAN'S BUDGET

The Japanese cabinet recently approved the largest budget in its history, providing for appropriations totalling 6,939,574 million yen (£8,031 million). The budget for the 1969-70 financial year (April to March), showed an increase of 15.8 per cent over the previous years. It was to be submitted to the National Diet (Parliament) for approval.

CREDIT LIMIT TO SMALL UNITS

The union government has decided to raise the limit of credit to the small-scale industrialists for the import of raw materials. This was announced by Mr Bhanu Prakash Singh, union Deputy Minister for Industrial Development and Company Affairs in Bombay recently. The present credit limit is 20 per cent of the cost of plant and machinery hire-purchased by the units from the National Small Industries Corporation. The minister did not disclose the extent to which the limit would be raised.

SOCIAL CONTROL OF BANKS

The Banking Laws Amendment Act, which provides for social control of commercial banks, will come into force on February 1, 1969. The government is shortly expected to announce the personnel and the terms of reference of the Banking Commission which is to make a thorough study of the banking structure, with particular reference to rural areas.

WORLD BANK TEAM

A three-member World Bank team, was in Delhi in connection with the third IDA loan sought for telecommunication development. It had detailed discussions with the Secretary of Ministry of Communications, Mr L. C. Jain. The team had discussions with ministry officials before visiting various parts of the country.

CHEMICALS FOR COTTON MILLS

The government has agreed to import, on an immediate basis, about 1,000 tons of sodium hydrosulphite and 200 tons of rangolite, the prices of which had soared to high levels due to paucity of supplies. The government has also permitted mills to import certain chemicals such as special optical whiting agents, sodium nitrite, sodium chlorite, titanium dioxide, gums etc., on their replenishment licences earned against exports of cotton textiles. With the improvement in the supply position, the Indian Cotton Mills Federation expected that the runaway trend in the prices of these chemicals noticed in the past three to four months would be checked and bring the much needed relief to the cotton mills.

ASIAN LABOUR MINISTERS' CONFERENCE

The Vice-President, Mr V. V. Giri, will inaugurate the four-day Asian Labour Ministers' Conference, which will be held from January 28 to February 1, 1969. There will be five plenary sessions of the conference, the first on January 28 and the last on January 31. The reports of the various committees constituted by the conference will be considered and adopted on January 31, 1969. Eighteen Asian countries are likely to participate in the conference. The agenda of the conference includes discussion on workers organisations, industrial relations, principles followed in the fixation of wages, technical co-operation and the impact of ILO on the Asian region.

PEST CONTROL SEMINAR

A five-day International Seminar on Integrated Pest Control was inaugurated in New Delhi on January 20 by Mr A. P. Shinde, union Minister of State for Food and Agriculture. The seminar has been organised by the Entomological Society of India in association with the Indian Council of Agricultural Research, the Research and Development Organization of the Ministry of Defence, the National Institute of Science of India and the Pesticides Association of India. Due to the peculiar circumstances prevailing in this country and especially the insufficiency of the required quantities of pesticides, it was strongly felt that the concept of integrated pest control was important for our country. It is in the light of this background that the seminar is being organised. About 450 Indian delegates, representatives of the Ford Foundation, the Rockefeller Foundation and USAID and delegates from about 12 foreign countries are participating in the seminar.

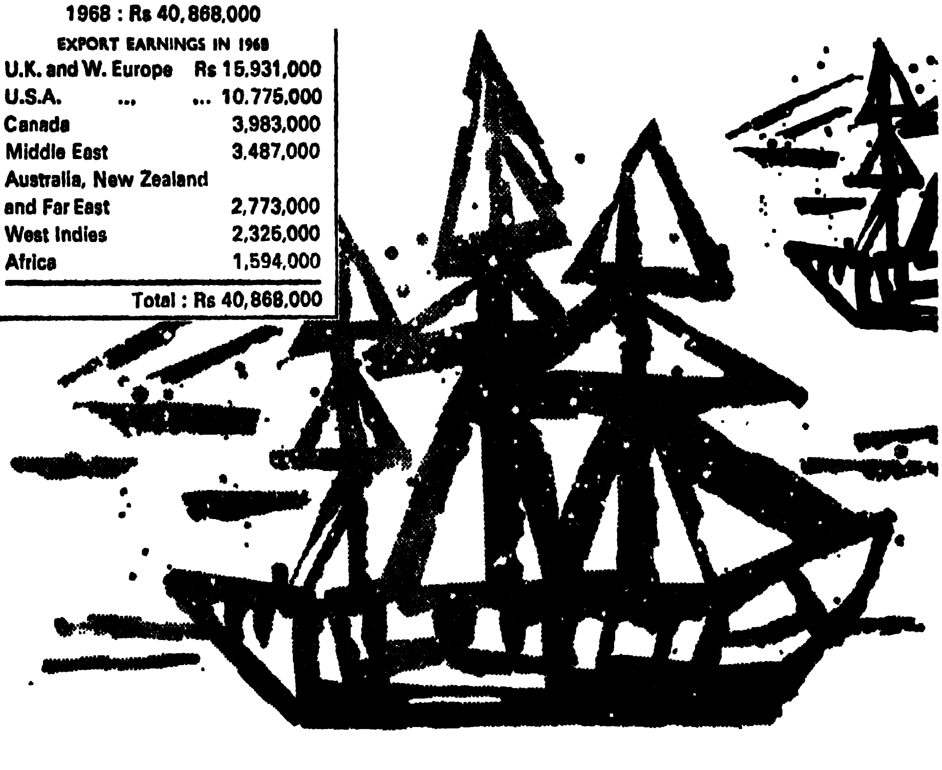
EASUN EXPORTS TO TANZANIA

Easun has secured an order of nearly Rs 7 lakhs from Electricity Supply Company Ltd, Tanzania, through their British consultant's firm of Balfour Beatty & Company Limited. Easun will supply and install one 15 mVa 11/33 kV Hackbridge-Hewittic and Easun (HHE) power transformer with on-load tap changing equipment and will erect connected switchgear and lighting equipment. In Kuwait, Easun has currenly undertaken design, manufacture and supply of transmission line towers, ACSR conductors and are presently erecting 218 km of 132 kV and 33 kV transmission lines valued at nearly Rs 2 crores. The work is under progress. Easun has already manufactured and delivered most of the 120 nos. 1000 kVa HHE transformers on order, costing Rs 25 lakhs. In Sudan, too, Easun will supply 197 nos., 25 to 100 kVa HHE transformers worth Rs 4.7 lakhs, most of which have already been shipped, much ahead of schedule. In Malaysia, Easun, has delivered otter-mill switchgear. Easun has considerable experience in generation, transmission and distribution and can undertake design, erection, supply and commission to meet the needs of most developing countries.

NAMES IN THE NEWS

Mr H. K. Srivastava, M.A. (Cantab), F.R.S.A. Executive Director, Sir J. P. Srivastava Group of Industries, Kanpur, has been elected President of the Upper India Chamber of Commerce, Kanpur, for the year 1969.

Mr Jack Nightingale, Managing Director of Hammond Metal Products of UK is here to finalise export of power presses to be supplied by Messrs Batliboi & Co. Pvt. Ltd. and manufactured by Prem Engineering Works of Okhala. He imported a 40-ton power press for his company from the Indian firm and found it to be nearly 25 per cent cheaper than those supplied by other manufacturers. He believes that our products compete in quality with those produced by any other developed country.



RECORDS AND STATISTICS

Export Finance

COMMERCIAL BANKS provide the finances required to keep exports moving. The various steps taken by the Reserve Bank and the government to extend credit facilities to exporters on a more liberal basis began with the extension, in October 1958, of the bill market scheme to export bills. Under this extended scheme, banks could use usance, export bill as security for advances from the Reserve Bank. From this beginning a number of steps were taken from time to time, liberalising the credit facilities for exporters as well as extending the scope of operations of the Export Credit and Guarantee Corporation which, through its scheme of guarantees, provided valuable collateral for banks making advances to exporters.

Since August 1967, however, many important decisions have been taken in the field of export credit. These are broadly the following.—

(a) In August 1967, the Reserve Bank agreed to provide refinance to commercial banks (i) at the concessional rate of 4.5 per cent in the case of packing credit advances to exporters of engineering and metallurgical products and (ii) at the Bank rate in the case of packing credit advances to exporters of other products, and in respect of post-shipment export credit. These concessional rates were subject to the condition that the interest charged by lending banks to exporters should not exceed 6 per cent in (i) above and not more than 8 per cent in (ii) above whether or not the banks sought refinance from the Reserve Bank of India. In regard to rupee export Bill, the rate of interest charged by banks was not to exceed 1.5 per cent above the Bank rate.

(b) In August 1967 the maximum period of export credit on the export of capital goods under the deferred payment terms was extended from 5 years to 7 years in deserving cases and up to 10 years in exceptional cases. It was further decided that the rate of interest chargeable by commercial banks in respect of medium-term exports as above, and the rates of interests at which refinancing would be available to the commercial banks from the Industrial Development Bank of India, would also be as in (a) above.

(c) In February 1968, there was a further liberalization. The Reserve Bank decided that for the purpose of computation of the net liquidity ratio the increase in banks advances in respect of packing credits and post-shipment export bills over the base period was not to be taken into account.

Concessional Advances

(d) With a view to giving further fillip to advances from commercial banks to exporters, the Reserve Bank decided to charge a concessional rate of 4.5 per cent to commercial banks in respect of the increase in the advances made by banks to exporters over the base period, subject to the banks not charging more than 7.5 per cent per annum on credit for exports as against the 8 per cent charged until then. The ceiling rate of 6 per cent in respect of packing credit advances to exporters of engineering and metallurgical products remained unchanged.

(e) With the reduction of the Bank rate from 6 per cent to 5 per cent in March 1968, the Reserve Bank prescribed a ceiling rate of 6 per cent for all packing credit and post-shipment credit for exporters.

(f) In the last budget an announcement was made about a scheme of interest subsidy to encourage flow of credit from commercial banks to exporters. In order to alleviate the burden on account of giving advances to exporters at concessional rate of interest, an interest subsidy scheme was brought into effect from March 1968. The amount of subsidy is 1.5 per cent of the total outstandings, subject to the conditions laid down in this scheme.

(g) In December 1968, the IDBI had announced a scheme of direct financial assistance to exporters in participation with approved commercial banks. This measure is expected to reduce the cost of credit for exporters, particularly of capital goods of high value with deferred payment terms, below the present level of 6 per cent.

Wide-Range of Guarantees

The developments in the facilities offered by the Export Credit and Guarantee Corporation (ECGC) also deserve notice. The ECGC, besides underwriting the commercial and political risks involved in exports, also offers a wide range of guarantees. These are:—

(a) Packing credit guarantee—covering losses sustained by a bank or financial institution due to the failure of the exporter to repay the debt. This relates to advances secured by an exporter from the bank for purchase, manufacture, processing or packing of goods meant for export.

(b) Post-shipment export credit guarantee—for issue to banks to protect them against any loss which may arise from purchase, discount or negotiation of an export bill.

(c) Export finance guarantee—seeks to find for the exporter post-shipment finance somewhat in line with what he can get on the basis of domestic value of his goods. It enables the bank to offer, on a selective basis, discounting facilities to exporters up to 125 per cent of the value of their shipping documents.

(d) Export production finance guarantee—seeks to find for the manufacturer/exporter finance up to 50 per cent over and above the f.o.b. value of the contract/goods at the pre-shipment and also the post-shipment stages.

(e) Export performance guarantee—seeks to cover (i) bank guarantees issued for the purpose of exporting goods without payment of central excise duty, (ii) bank guarantees given in support of export undertakings furnished by exporters in connection with the import of raw materials or capital goods (iii) bank guarantees furnished by exporters to buyers either against advance payment or to ensure due performance of export contract and (iv) bank guarantees furnished by exporters in lieu of the earnest money while participating in foreign tenders.

The insurance policies of the ECGC ordinarily cover 80 per cent of the commercial risks and 85 per cent of the political risks. These insurance policies are accepted by banks as collateral security for their advances to exporters. The guarantees issued by the ECGC usually undertake liability for 66⅔ per cent of the value involved. However, it has been decided that the guarantees issued by the ECGC should cover 90 per cent of the value in the case of very small merchant exporters, and 80 per cent of the value in the case of export orders for export of capital goods and equipment for a value not less than Rs 2 crores.

Thus, the credit facilities available to exporters, at present, may be briefly summarised as follows:—

(a) Credit is available from banks, for both pre-shipment and post-shipment finance, at 6 per cent interest. Flow of funds from banks to exporters is facilitated by the schemes of re-finance to the banks from the Reserve Bank of India and the Industrial Development Bank of India at the concessional

rate of 4.5 per cent, and also by the scheme of interest subsidy at 1.5 per cent, administered by the Reserve Bank.

(b) A range of insurance policies and guarantees for exports are offered by the ECGC which enable exporters to safeguard their interests against commercial and political risks in exports, and to secure financial support from commercial banks.

(c) The scheme announced by the Industrial Development Bank of India, of direct participation in advances to exporters in collaboration with commercial banks, is expected to bring down the cost of credit to exporters even below the present level of 6 per cent.

The cumulative effect of all these measures has been a great boost to Indian exporters competing in world tenders for export of equipment, etc., for high value, with payments spread over a number of years. For example, the ECGC has issued specific shipment policies covering exports on deferred payment terms in the following cases:—

(a) Export of transmission line towers to Nigeria for Rs 188 lakhs, payment to be completed by November 1969.

(b) Export of steel rails of Rs 265 lakhs to Iran, payment to be completed in June 1970.

(c) Export of cover conductors to Iran for Rs 291 lakhs with five years deferred payment.

(d) Export of Rs 41 lakhs of sugar machinery to Uganda with eight years deferred payment.

(e) Export of Rs 31 lakhs of coach screws, etc., with five years deferred payment.

(f) Export of Rs 130 lakhs of steel pipes to New Zealand with five years deferred payment .

Exporters appear to have tendered for a number of other contracts also, judging from the enquiries made by them from the financing institutions about the facilities on the basis of which they could quote.

Foreign Collaboration in Indian Industry

THE RESERVE Bank of India undertook in March 1965 a survey of foreign collaboration in Indian industry with the purpose of providing data regarding the nature, pattern, problems and operation of foreign collaboration agreements. The report on the survey has recently been released. The findings of the survey are given below.

The survey is in the nature of a census of all public and private limited companies with foreign participation as on March 31, 1964 and of all companies having foreign collaboration agreements in force on April 1, 1961. It also covers those agreements which came into force thereafter provided they had obtained government approval by March 31, 1964. Individuals and partnerships were excluded from the survey as also branches of foreign companies.

For the purpose of the survey, private sector companies have been classified into three groups: subsidiaries, minority participation and pure technical collaboration. A foreign company is defined as a company incorporated outside the Indian Republic. A company is grouped under subsidiaries if a single foreign company holds more than 50 per cent of the equity share capital, while it is put under the minority participation category where such holdings are 50 per cent or less. Companies which have no foreign company equity capital participation but have technical collaboration agreements fall into the pure technical collaboration group.

Companies Covered

The survey covered 827 companies in the private sector, of which 224 were subsidiaries, 367 minority participation companies and 236 pure technical collaboration companies. Of these 827 companies, 587 companies had technical collaboration arrangements involving 973 effective agreements. In addition, the survey covered 69 companies with 78 agreements which came into force after March 31, 1964. The survey thus covered a total of 1051 effective agreements.

Over 70 per cent of the 827 private sector companies covered had technical collaboration arrangements; this proportion for companies incorporated during 1956-64 was 90 per cent as compared with 53 per cent for companies incorporated by end 1947. About three-fifths of the subsidiaries were incorporated prior to end 1947 as compared with a little over a fourth in the minority group. There appears to be a greater tendency—reflecting the changing pattern of foreign capital and technology in Indian industry—for the minority group than for the subsidiaries to enter into technical collaboration arrangements. Minority participation appeared in the immediate post-Independence period and this form of company organisation became predominant during 1956-64. Nearly three-fifths of the companies in minority group were incorporated during 1956-64 as compared with only two-fifths for the pure technical group. The minority participation companies were generally a product of foreign collaboration while the companies in the pure technical group resorted to foreign collaboration as part of a programme of expansion or diversification.

Capital Employed

A little over 30 per cent of the companies covered under the survey had total capital employed of Rs 25 lakhs or less each. The 47 large companies, with total capital employed of over Rs 10 crores each, accounted for nearly one-half of the total capital employed by all the private sector companies covered under the survey. Over three-fifths of the companies had a total capital employed of Rs 1 crore or less each, indicating that small and medium sized units were important in the sphere of foreign collaboration. Well over one-half of the subsidiaries and nearly two-thirds of the minority participation companies operated on a total capital employed of Rs 1 crore or less each. The ratio of gross profits to total capital employed during 1960-61 to 1963-64 averaged around 15.6 per cent for subsidiaries, 8.4 per cent for the minority participation group and 11.4 per cent for the pure technical group.

Foreign company capital participation rose from Rs 144 crores in 1960-61 to Rs 198 crores in 1963-64. In 1963-64, subsidiaries accounted for 65 per cent of the total foreign capital participation and minority participation for the balance of 35 per cent. Dividend remittances during the period 1960-61 to 1966-67 totalled Rs 122 crores or an annual average of a little over Rs 17 crores. The average dividend remittance to foreign net worth ratio during the period 1960-61 to 1963-64 was 6.1 per cent for subsidiaries and 2.7 per cent for the minority participation group.

Between January 1948 and March 1964, the government granted approvals for about 2,200 foreign collaboration agreements, of which about four-fifths were by companies. Of these, as mentioned above, 1051 agreements, which related to companies, were effective. About 56 per cent of the 1051 effective agreements came into force during 1961-65.

The classification of effective agreements entered into by companies showed that the UK was the leading collaborator and accounted for two-fifths of the agreements while the US accounted for 19 per cent of agreements. Industry-wise,

subsidiaries and minority participation companies predominated in petroleum, transport equipment, electrical goods and chemicals while purely technical arrangements were relatively more important in textiles, machinery and machine tools and metals and metal products.

The survey showed that a little over 13 per cent of agreements had a duration of over 10 years; a little over two-fifths of the agreements were of 10 years duration and a little over a fifth between five and nine years duration. The agreements of subsidiaries were by and large of longer duration than in the minority group. An examination of rates of royalty linked to value of sales production showed that only 12 per cent of cases had rates of over 5 per cent. Unpatented know-how was an important constituent of the agreements entered into by over 90 per cent of companies. About 70 per cent of the agreements had a specific clause assuring exclusive rights to the licensee. Restrictive features figured in 57 per cent of the agreements in the minority group as compared with 44 per cent in subsidiaries and 46 per cent in the pure technical group. The subsidiaries and minority groups had a large proportion of vague export clauses; in contrast export restrictions in the pure technical group were more specific.

Total technical collaboration remittances (i.e. royalties and technical fees) by the private sector companies covered by the survey rose from Rs 4.9 crores in 1960-61 to Rs 12.1 crores in 1966-67. While royalty remittances were evenly distributed in the three groups, technical fees were concentrated in subsidiaries and minority groups. Royalty remittances were accounted for mainly by transport equipment, machinery and machine tools, electrical goods and machinery, medicines and pharmaceuticals and rubber goods. Technical fees on the other hand were predominant in metals and metal products, basic industrial chemicals and rubber goods.

Of the 1051 effective agreements relating to companies, subsidiaries accounted for 144 agreements, the minority group for 445 agreements and the pure technical group for 462 agreements; 57 per cent of the total effective agreements came into force during 1961-65, 31 per cent during 1956-60 and the remaining 12 per cent by end-1955.

The country-wise classification of agreements indicated that the UK accounted for 40 per cent of the total, the US for about 19 per cent and West Germany for 14 per cent; Switzerland, Japan, France, the Netherlands and Sweden were the other important collaborators. The UK accounted for 56 per cent of agreements by subsidiaries but only 38 per cent of agreements in the other two groups. The share of the UK in newer agreements was declining and the higher proportion of agreements by subsidiaries with the UK was explained by fewer new agreements in subsidiaries.

An industry-wise classification of agreements revealed that machinery and machine tools, electrical goods and chemi-

cals together accounted for 55 per cent of the total agreements. Pure technical collaboration was relatively more important in textiles, machinery and machine tools and metals and metal products while subsidiaries and minority participation companies predominated in petroleum, transport equipment, electrical goods and chemicals. The proportion of purely technical arrangements in textiles was high because these agreements essentially related to patent rights for finishing processes. In metals and metal products and machinery and machine tools domestic capital had already set up units and technical collaboration was sought for certain specific items. In contrast, in areas where know-how was tightly held and also rapidly changing as in chemicals, the subsidiaries and minority groups accounted for the bulk of agreements.

Agreements in the early post-Independence period were concentrated in consumer goods industries, but the industry mix of agreements currently in force shows that the bulk of the agreements are in fairly sophisticated sectors of industry. This is true despite the fact that some broad industry groups do cover a considerable range of consumer goods; for instance, some of the companies in medicines and pharmaceuticals also produce toiletries.

Asset Transfers

The survey showed that over 70 per cent of the agreements had a specific clause assuring exclusive rights to the licensee. The ratio of agreements with exclusive rights to total agreements was 80 per cent for the minority group and around 63 per cent in both subsidiares and pure technical groups. The lower proportion of agreements with exclusive rights in the pure technical group is attributed to the non-exclusive agreements in textiles while the lower proportion in subsidiaries is probably due to the close ties between parent and subsidiary units. It is possible that some of the agreements which did not specifically grant exclusive rights, operated on the basis of a tacit understanding that exclusive rights would be granted so long as the working of the agreement was found to be satisfactory.

The survey brings out that unpatented know-how was an important constituent of the agreements entered into by over 90 per cent of companies. Patented know-how is only a part of total technological know-how and unpatented know-how is vital for working most patents.

The survey revealed that a little over 13 per cent of agreements had a duration of over 10 years. The agreements by subsidiaries were by and large of longer duration than in the other two groups. Further, the agreements in the pure technical group were of distinctly shorter duration than in the minority group. The agreements sanctioned prior to 1961, and more particularly prior to end-1955, were of longer duration than those of more recent years. This explained the larger proportion of longer duration agreements in the case of subsidiaries. Again, companies with foreign equity capital participation accounted for the bulk of longer duration agreements. There were 30 agreements of indefinite duration of which subsidiaries accounted for 22 and the minority group for the other eight; however all these 30 agreements were approved prior to end 1960.

The duration pattern of agreements which became effective during 1961-65 showed that only 3 per cent of agreements had a duration of over 10 years. By and large, the 10-year duration rule was maintained in recent years, though longer durations were approved by the government in a few special cases.

Examination of the rates of royalty linked to value of sales/production, showed that only 12 per cent of cases had rates over five per cent. Royalties exceeding 3 per cent in the case of subsidiaries and over 5 per cent in other cases are generally not approved. In two-fifths of the subsidiaries the royalty arrangements were above 3 per cent and not all of these predated 1955. The main reason for departing from the general rule in recent years was that the technology imported was sophisticated and otherwise not easily available. In the minority and pure technical groups taken together, only 11 per cent of royalty arrangements had rates over 5 per cent. The reason for the lower proportion of royalty arrangements exceeding the generally prescribed maximum was that the agreements in these groups were, on an average, of more recent origin

An industry-wise distribution of royalty rates linked to value of production or sales revealed that machinery and machine tools and transport equipment had a larger proportion of agreements with rates over 5 per cent and these two industries accounted for a little less than one-half of the agreements with royalty rates of over 5 per cent. The proportion of royalty agreements with rates over 5 per cent was lower in electrical goods and machinery and metals and metal products. The proportion of textile agreements with rates over 5 per cent was seemingly high; this was, however, explained by the fact that the bulk of agreements in textiles were related not to value of output but to quantum of output, which worked out to approximately less than one per cent of value. Again, rates of over 5 per cent in the case of some textile agreements were attributed to royalty being payable only on exports.

From a mere comparison of royalty rates it is not possible to conclude whether the payments were excessive since much depends on the nature of know-how transferred under such agreements. Some agreements have royalties while others have royalties and technical fees. It is much more difficult to prescribe any general norm for technical fees since the service rendered under each agreement is in a sense unique. The general rule has been that technical fees should not exceed a certain percentage of annual turnover. Although agreements with higher rates of royalty appear to be less favourable than agreements with lower rates, technical fees can outweigh the advantages of lower royalty rates.

Restrictive Features

Restrictive features in agreements comprise mainly clauses relating to exports, sources of supply, production and minimum royalty payments. About 57 per cent of agreements in the minority group had restrictive features as compared with 44 per cent in subsidiaries and 46 per cent in the pure technical group. Of the 1051 effective agreements, 455 agreements had export restrictions, 154 agreements had restrictions on sources of supply, 65 agreements on production and 55 agreements on minimum royalty.

Considering the agreements by date of effective commencement, 45 per cent of agreements which came into effect by end-1955 had various restrictive features while the corresponding ratios for 1956-60 and 1961-65 agreements were 55 per cent and 49 per cent respectively. While the data seemed to indicate that the proportion of agreements with restrictive clauses did not show a clear decline, it should be noted that in practice much depends on the intensity of these restrictions.

Restrictions on the sources of supply of raw materials and plant and machinery, and minimum royalty payments were highest in the pure technical group. The subsidiaries and the minority participation group were relatively free from these restrictions explicitly, though these restrictions were to some extent implicit in view of close ties between the parent and subsidiary or affiliate.

Of the 455 agreements with export restrictions, 52 per cent related to demarcation of countries to which exports were permitted and about 33 per cent to stipulations requiring 'permission of collaborators for exports'. Clauses enforcing

a total ban on exports figured in only 8 per cent of the agreements with export restrictions.

The pattern of export restrictions showed an interesting contrast as among the three groups. Though both the minority and pure technical groups had a large proportion of newer agreements, the minority group had a substantially larger proportion of export restrictions. Again, the subsidiaries and minority groups had a larger proportion of vague export clauses which were difficult to interpret since much depended on the actual operation of these clauses. The export restrictions in the pure technical group in contrast were more specific and little was left to tacit understanding between the two parties.

Of the 1051 effective agreements 43 per cent had export restrictions. Country-wise, export restrictions existed in 50 per cent of the UK agreements. The high proportion of the UK agreements with export restrictions was not due to the larger proportion of older agreements since over 50 per cent of 1961-65 agreements with the UK had export restrictions. In contrast, a little less than one-third of the US agreements had export restrictions; moreover, only 27 per cent of the US agreements, relating to 1961-65, had export restrictions. The proportion of export restrictions in the agreements with West Germany, Switzerland and Japan was also low.

Industry-wise, export restrictions were high in the agreement relating to transport equipment (62 per cent), machinery and machine tools (50 per cent), electrical goods and machinery (50 per cent) and medicines and pharmaceuticals (50 per cent) The industries with a lower level of export restrictions were metals and metal products (39 per cent) and basic industrial chemicals (27 per cent). Foods, beverages and tobacco and textiles had a very low proportion of agreements with export restrictions. In industries where export restrictions were high there was very little improvement in the reduction in the proportion of such restrictions in the more recent agreements of 1961-65.

By and large, the shorter duration agreements had a smaller proportion of export restrictive clauses than the longer duration agreements. One-half of the agreements with no duration (i.e., agreements involving capital participation in lieu of technical collaboration payments) and agreements of over 10 years duration had export restrictions. In the case of agreements of over 10 years, however, export restrictions were perceptibly lower in the newer agreements which came into effect during 1961-65. One-third of the indefinite agreements had export restrictions, though as mentioned earlier, such agreements were not approved during 1961-65.

Dividend Remittances

In the balance of payments presentation of most countries payments relating strictly to technical collaboration are merged with other remittances. In this survey the technical collaboration payments have been isolated from other miscellaneous payments which are not relevant to technical collaboration and, moreover, the survey deals with inter-company payments. Further, there is also need for a detailed sector-wise and industry-wise break-down of these payments. The survey presents the payments separately for the public and the private sectors, and further within the private sector for three groups of companies depending on the extent of the stake of foreign capital in the operation of the Indian company.

Since dividends reflect the payments emanating from capital investment, an assessment of the pattern of dividend remittances is essential. Annual dividend remittances increased from over Rs 11 crores in 1960-61 to an estimated Rs 22 crores in 1966-67. The ratio of net dividend remittances abroad to foreign net worth was derived to assess the rates of return as it affects the movement of funds. The average dividend remittance ratio for subsidiaries during 1960-61 to 1963-64 was 6.1 per cent while that for the minority participation group was only 2.7 per cent. The remittance ratio in the case of subsidiaries in medicines and pharmaceuticals and 'other' chemicals was above the average, around 10 per cent, while in machinery and machine tools it was below the average, slightly less than 4 per cent. The remittance ratio in the minority sector was low because fresh inflows of capital were concentrated in this sector and the proportion of nascent investment. which could not but have a low rate of return, was sufficiently large to depress the remittance rate.

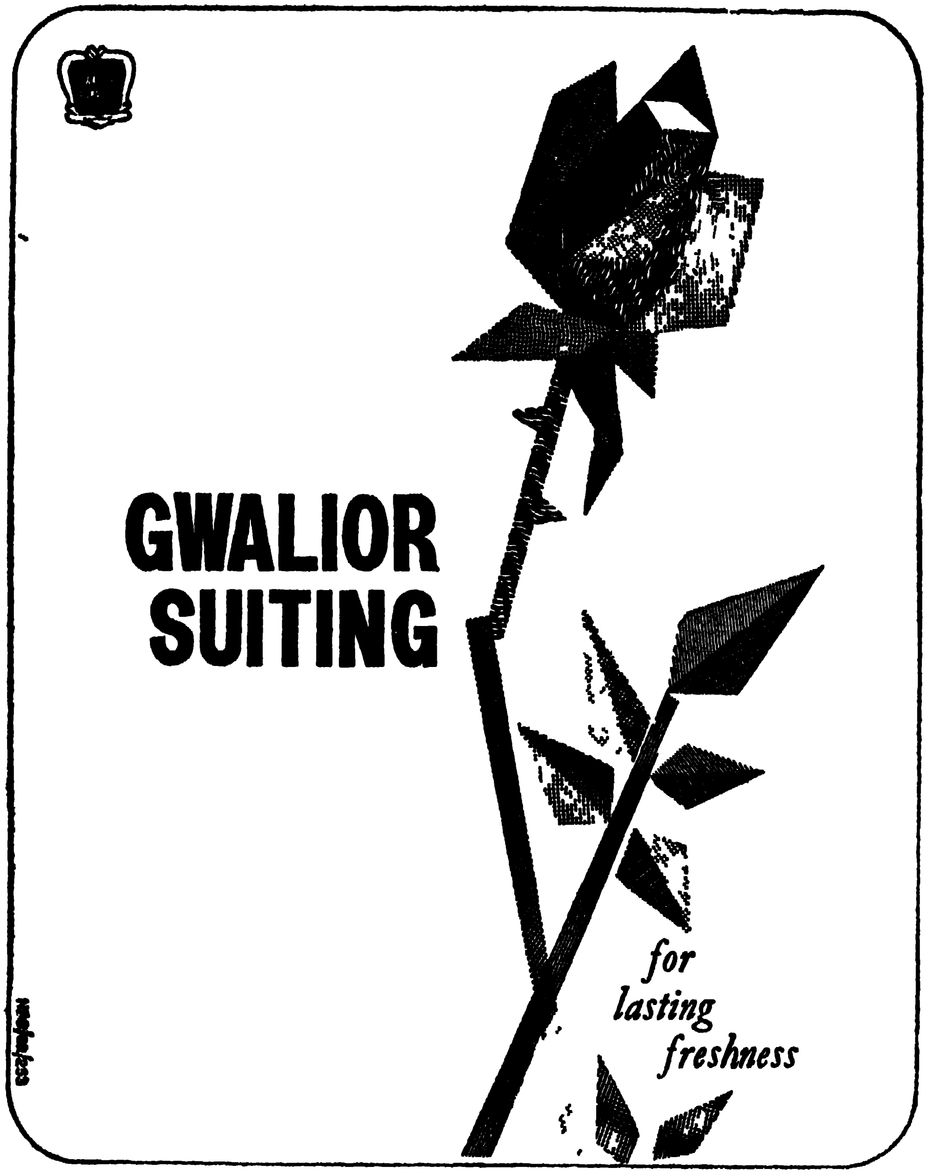
The total technical collaboration remittances, by the private sector companies covered by the survey, averaged Rs 8 crores per annum during 1960-61 to 1966-67, with royalties and technical fees accounting for roughly equal amounts. While royalties showed a continuous rise during the seven years covered by the survey, technical fees were somewhat uneven.

Sharp Increase

The level of royalty remittances increased sharply from Rs 1.5 crores in 1960-61 to an estimated Rs 8 crores in 1966-67. Over this seven-year period royalty payments were fairly evenly distributed between the three groups of companies, though the growth in payments was highest in the minority group. Four industries viz., transport equipment, machinery and machine tools, electrical goods and machinery and chemicals together accounted for three-fourths of the remittances. The minority group accounted for a major part of remittances under transport equipment and electrical goods, the pure technical group under machinery and machine tools and chemicals, and subsidiaries under chemicals. The country-wise analysis of royalty remittances indicated that the UK. the US and West Germany together accounted for about 87 per cent of remittances. While royalty remittances to the UK and West Germany were, in the main, by companies having participation-cum-collaboration arrangements, remittances to the US and 'other' countries were mainly by the pure technical collaboration group.

Remittances of technical fees averaged a little less than Rs 4 crores per annum during 1960-61 to 1966-67. However, unlike royalties, technical fees did not show any growth during the period. Moreover, technical fees were not evenly distributed as between the three groups and were rather low in the case of the pure technical group. Metals and metal products, electrical goods and chemicals accounted for over one-half of remittances. The high remittances under 'miscellaneous' were accounted for mainly by rubber goods in the subsidiaries sector. Remittances under metals and metal products were evenly distributed among the three groups. Subsidiaries were mainly responsible for remittances under electrical goods and medicines and pharmaceuticals. The remittances of the minority group were predominant in basic industrial chemicals and 'other' chemicals. The uneven year-to-year remittances of technical fees were attributable to the maturing of large payments in certain industries which tapered off once the particular projects were completed. The UK and the US accounted for over two-thirds of remittances of technical fees while Switzerland was also an important recipient. Remittances to the UK were more important in subsidiaries while the US predominated in remittances by the other two groups.

The survey also covered 24 government companies. The royalty remittances of government companies rose from Rs 15 lakhs in 1960-61 to an estimated Rs 64 lakhs in 1966-67. Remittances of technical fees by these companies were uneven from year to year and averaged Rs 3.8 crores per annum during the seven-year period. Reflecting the importance of foreign personnel in government companies, the foreign exchange outlay on account of foreign technicians was Rs 2.65 crores in 1963-64.



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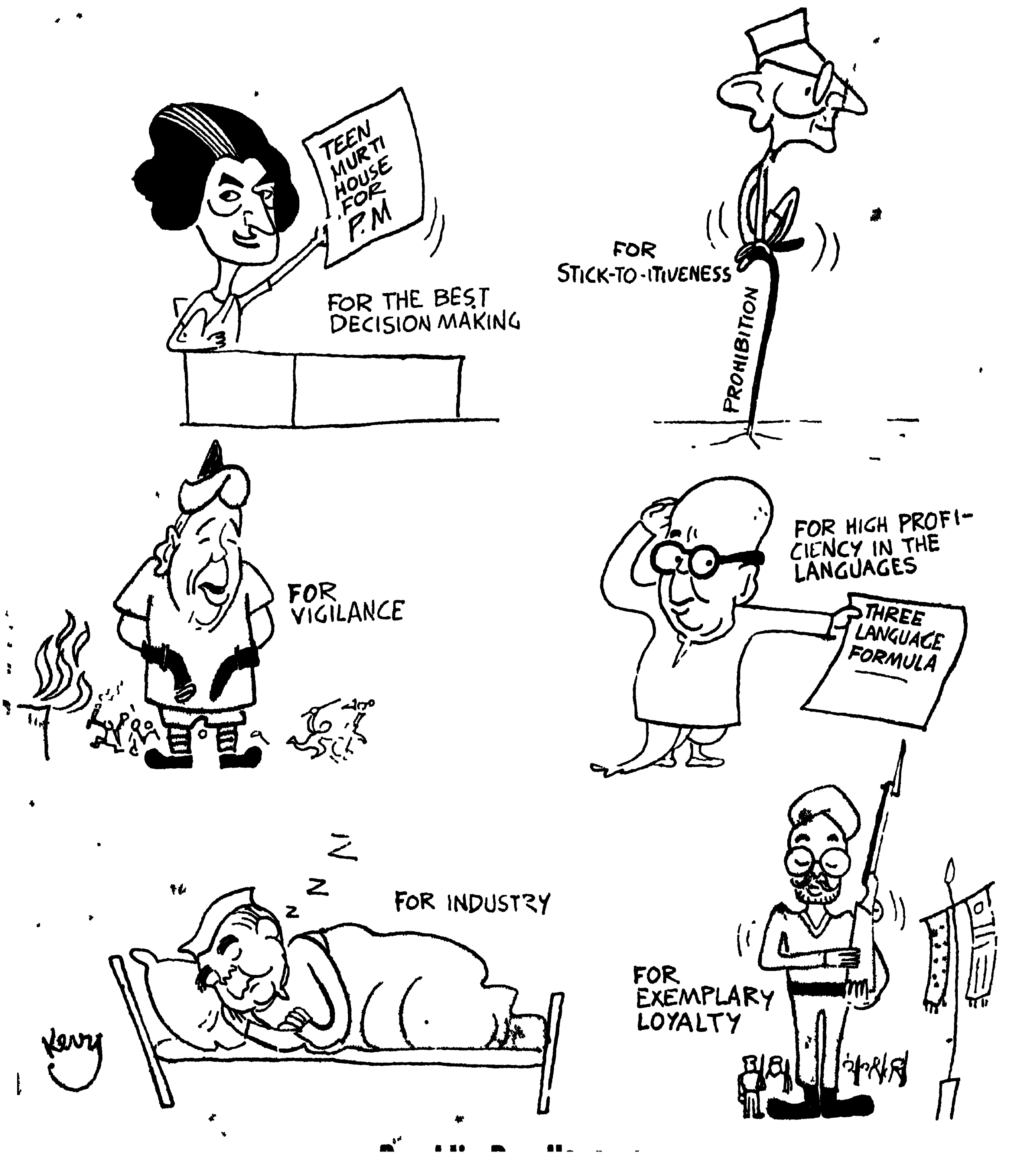

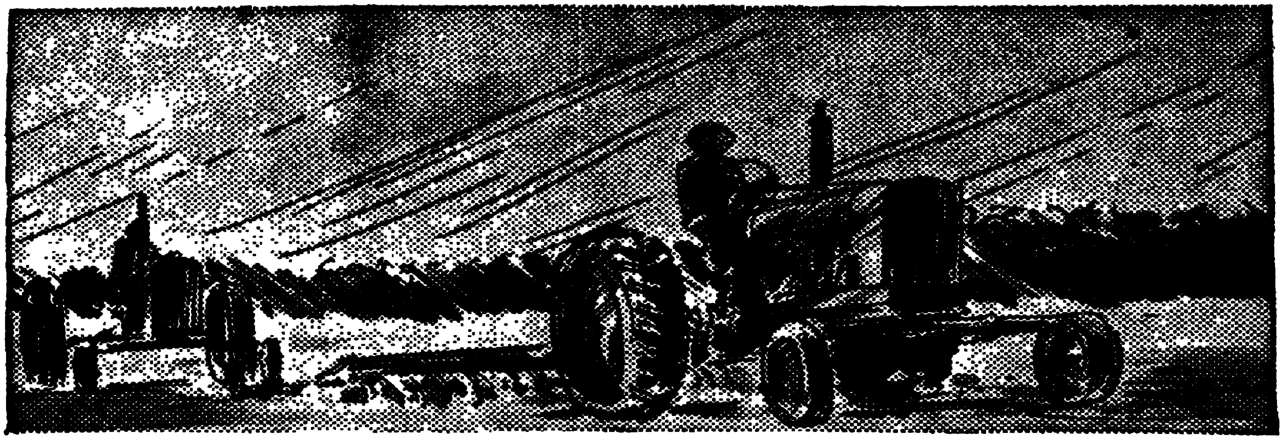

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The Call of the Hustings

ALTHOUGH Mrs Gandhi and other leaders of the central government and the Congress party were ritualistically present at the Republic Day parade in the capital, their thoughts, probably, had more to do with how their party might fare at the forthcoming mid-term elections in the states of West Bengal, Bihar, Uttar Pradesh and Punjab, than with the significance which the Republic Day ought to have for those who would govern the country.

These four mid-term elections have been collectively described as a mini-general election, but the description does not do adequate justice to the event to which it is applied. These elections, collectively considered, may have consequences for the political course of the nation which may not be markedly less important than those of the fourth general election itself. Over the last two years, the people of this land have paid dearly, in terms of treasure and time, for the absence of stable administrations in a number of states. The delaying and fumbling of the process of economic development in this period have been due not a little to the fact that, over large areas of the land, there has been no popular state government interested in actively furthering programmes of economic development.

It is true that President's rule has been successful to some extent in its attempt to retrieve the situation, but there is no denying the fact that the climate in politically distracted states has not been conducive to the kind of public participation which is needed and which no Governor's regime, however dedicated or efficient, can hope to arouse. We are not suggesting here that, in other states, where there has been more political stability at the state level, economic progress has been outstanding, but we do believe that the political disarray in which so many states have found themselves since the last general election has undoubtedly queered the pitch not only for the economic advancement of the affected states, but also for economic progress of the nation in general.

Viewed in this context, the results of the forthcoming mid-term elections may well be substantially responsible for the extent to which this country succeeds, or fails, in stepping up the pace of orderly economic growth during the coming years. It is possible, however, that the concern of the leaders of the party ruling at the centre is less with the national significance of these mid-term elections than with the likely electoral fortunes of the Congress organisation. This is perhaps natural because this party is now being forced to face consciously for the first time a challenge to its survival as the premier political party in the nation.

Thus, while the last general election ended the domination of the political scene by the Congress party as a monopolist of political authority and government status at the central and state levels, the mid-term elections could be decisive in determining whether the Congress can expect to survive as the major political force in national affairs. It is inconceivable, surely, that for all its numerical superiority in Parliament, the hold of the Congress on the levers of power at the central government will not be shaken were this party to fail significantly in the mid-term elections in, say, Uttar Pradesh or West Bengal.

Against this background, it is good for the Congress that its leaders are convinced that they can wait hopefully for the verdict of the polls in Uttar Pradesh and West Bengal. The Prime Minister, in fact, seems disposed to talk in terms of a convincing Congress success in all the four states, but her optimism is evidently not being shared by some of her colleagues in the party among whom the Congress President can,

perhaps, be included. But even these less exuberant leaders of the Congress party seem to believe that the Congress should emerge from the mid-term elections with sufficient strength in the legislatures of UP and West Bengal to be able to form stable administrations in these states.

In UP, the Congress party seems to derive its confidence from the disintegration and demoralisation in the ranks of the parties opposed to it. This confidence is bolstered by the belief among Congressmen that the people of UP are tired of the lack of stability in politics and administration consequent on the opportunistic manoeuvre of groups composing the anti-Congress front and are, therefore, in a mood to give a chance to the Congress party as a more likely instrument for the restoration of the orderly functioning of the machinery of the state government. It follows that Congress propaganda has been tempted to emphasise the party's potential for re-establishing political stability in the state. The resurrection of politics and administration, in fact, is the central theme of the Congress campaign not only in UP, but also in the other states. In Punjab, however, this particular claim, coming from Congress sources, may sound less impressive than elsewhere since here the Akali Dal clearly has reasonable chance of doing a "DMK" and emerging as a strong regional party well-positioned in the state legislature. Not surprisingly, therefore, Congress expectations seem to be at their most subdued with regard to Punjab.

The Congress claim as a party of stability should probably make a more marked impact on the electorate in Bihar than on the voters in Punjab. But politics in that state has become so incoherent and faction-ridden that it would be quite rash to prophesy what political pattern the election returns would eventually weave. In the Congress camp itself the prevailing assessment seems to be that the denial of nominations to certain controversial or discredited "bosses" in the state organisation has lately improved the image of the party in the eyes of the public. Since Bihar had demonstrated its basic loyalties to the Congress even at the last general election by returning Congress candidates in strength to the central legislature, it is felt that there is no need to despair of the party recapturing the faith and the votes of the people of Bihar, now that it has cleansed itself by turning the money-changers out of the temple. As against this advantage, the Congress party must clearly reckon with the risk of disgruntled Congressmen scheming and working against the official candidates of the party, a possibility which could also cause some damage to Congress chances in neighbouring UP where, however, disaffection within the local leadership is perhaps a less serious election risk on the present occasion.

In West Bengal, again, the possibility of Congressmen themselves manoeuvring against Congress candidates is, happily for the party, certainly very considerably less now than during the self-destructive dissensions seen in Congress ranks during the last general election. In fact, the most cheering development for the Congress party in West Bengal is that the Bangla Congress, formed as a protest group by defectors led by Mr Ajoy Mukherjee, seems to have lost its initial appeal for a large section of the electorate which, at the last general election, was provoked to register its dissatisfaction with the official Congress organisation in the state by shifting its loyalty to the rebels or would-be reformers.

As against this gain, the Congress may have to set off the accession of strength to the Leftist challenge which is bound to accrue from the fact that the two wings of the communist party in the state seem to have decided to avoid the kind of in-fighting which so considerably hampered at the last general election the communist bid for a commanding leadership position in the state legislature. The confrontation, in other words, between the Congress party and the forces of the Left has become sharper this time in West Bengal, and this is not the least of the reasons why the issue in the state must be seen as something more than a mere matter of a stable administration. What is at stake here is the survival of the experiment in democracy on which the nation is so hopefully embarked. For this reason alone a wider public than is politically committed to the Congress faith would ask of the people of West Bengal not to give up the Congress party in the state in despair but give it a chance to redeem itself.

Eastern Economist 25 Years Ago

FEBRUARY 4, 1944

In a recent Bombay speech on 'Banking', Sir Chintaman D. Deshmukh, Governor of the Reserve Bank of India, made a forecast about the future trend of bank deposits and advances which is in substantial agreement with our own analysis of the problem some weeks back. A fall in deposits might take place by withdrawal by the public "either through the repayment of loans solely created by the war activity, the redemption of government obligations, by tax money or an unfavourable balance of trade arising from an excess of imports over exports". Sir Chintaman dismissed the first two as unimportant and considered unfavourable balance of payments as the principal factor which would "result in a contraction of India's external resources on the one hand and of deposits with her banking system on the other", although he admitted that in a country, with a large amount of industrial and economic slack to be taken up, there were reasonable grounds for anticipating that with increased industrialization there need be no appreciable reduction in the level of bank deposits. We agree with the conclusion, but dissent from the argument. An unfavourable balance of payments will certainly reduce our external resources, but it need not necessarily reduce internal bank deposits unless currency deflation is enforced. The volume of our sterling assets is considerable and very much in excess of the requirements of the currency reserve. The bulk of it can be employed for capital import without calling for corresponding domestic currency contraction.

Kerala's Utopian Plan

THE DRAFT fourth five-year Plan of the Government of Kerala, presented to the state assembly recently, is well documented and brings out clearly the vast scope that exists for exploitation of irrigation and power resources and for strengthening the industrial base of the state. But one wonders why a region so richly endowed with nature's bounties has not been properly developed and the communist regime has suddenly woken up to the possibilities of economic development and is complaining of lack of financial resources. No one will say that the schemes outlined in the Plan should not be taken up as the development of power resources and the facilities that exist for promoting industries would be helpful not only for the state but the nation as a whole. But it has not been explained how the right priority should be accorded to the different schemes and what is the practicability of the Plan. This aspect of planning has been completely ignored as the financial resources are not simply available and it is too much to expect that the central government would be able to work out the required amount and entrepreneurs would be keen to venture into new fields.

The fourth Plan, as now drafted, contemplates an outlay of Rs 460.01 crores in the state sector against the actual outlay of Rs 182.31 crores in the third Plan period. There is a big increase in the allocation for agriculture, community development and co-operation to Rs 96.17 crores from Rs 36.84 crores, irrigation and power to Rs 170.33 crores from Rs 76.34 crores, industries and minerals to Rs 62.63 crores from only Rs 14.37 crores, transport and communications to Rs 48.43 crores from Rs 11.96 crores and social services, education, welfare and other schemes to Rs 82.39 crores from Rs 42.80 crores. On the resources side, it has been estimated that only Rs 25.76 crores will be available from various sources against Rs 59.44 crores in 1961-66 and with the anticipated central assistance a Plan of the order of Rs 200 crores only can be implemented. The state has, of course, some practical difficulties as there will be a heavy deficit arising out of the new commitments under continuing schemes, while there will be large debt repayments to the centre. But even granting that there will be a bigger devolution of revenues from the centre and a rescheduling of debt repayments, it is unlikely that a Plan of more than Rs 300 crores can be tackled. Here, again, it is assumed that there will be liberal central assistance for the Idikki, Cochin fertiliser and other projects.

It is, therefore, clear that there will have to be a pruning of the Plan which would mean that the state government will have to evolve a core by re-determining the priorities. Many of the irrigation projects which are really continuing schemes and which will utilise the tail-race waters of power stations will have to be completed. The Idikki project may have to be wholly centrally-financed as in spite of the calculations of the state electricity board that there will be a shortage, once the first stage of this mammoth project has been completed there will be large surplus of power, which will have to be exported to the neighbouring states. It will, of course, be generally agreed that large expenditure will have to be incurred on the construction of a network of transmission lines and the appropriation of Rs 47.50 crores for this purpose is reasonable. What is more important is the quick completion of the different projects as any delay in commissioning the generating sets will only result in an unnecessary inflation of working expenses and reduce the return on investments, as is now happening in the Sharavathi project. The schemes outlined for being executed in the central sector are very economic. Idikki II stage, the Silent Valley, Lower Periyar and Perinjankutty projects can be constructed at very low costs and large blocks of power can be generated economically. It will, therefore, have to be decided how the power schemes of the southern states should be integrated and a saving in overall outlay effected by staggering the execution of different projects and ensuring continued availability of power on the required scale. In this respect Mysore and Kerala are ideally placed. But Kerala has the advantage of having numerous medium-sized projects which can be completed in four or five years.

While the central sector power projects will account for Rs 63.60 crores, it has been suggested that in the industrial sector as much as Rs 180.16 crores should be invested and in the private sector Rs 130.66 crores. Including the state's outlay it has been reckoned that for industrial development alone there should be an investment of Rs 324.54 crores. Apart from providing the funds necessary for the Cochin Fertiliser Factory, it is difficult to see how the petrochemical complex around the Cochin Refinery can be developed with the resources of the central government, as they are not adequate. The Kerala government will be helping itself and others if it can dispel the fears of entrepreneurs and give the assurance that industrial peace will prevail in its territory. There will then be a large inflow of capital from outside the state and even from foreign countries. If the projects for manufacturing newsprint, petrochemicals, carbon black, polythene and other items can be promoted in the private sector, there is the prospect of the regional economy getting reasonably well developed in a short period. On the other hand if the state government attempts to do everything by itself, not only will it be difficult to find the required resources, but it will be well-nigh impossible to handle the Plan as there will be too much work for the government departments. The state government should, therefore, realise the practical

difficulties in its way and adopt realistic policies. Otherwise the draft Plan will prove to be largely Utopian and it will not be possible to achieve even 50 per cent of the total outlay of Rs 1,190 crores now proposed, Rs 460 crores in respect of the state Plan, Rs 444 crores on account of the central sector, Rs 30 crores through institutions and Rs 256 crores pertaining to the private sector.

Paper Prospects

ALTHOUGH THE supply of paper and paper boards is at present comfortable despite nearly five per cent of the output being exported and a substantial decline in the annual rise in production—from about 40,000 tonnes between 1964-65 and 1967-68 to just about 10,000 tonnes this year, which is also the anticipated growth next year—it is feared that it would grow tight in a couple of years. As the setting up of new units and ensuring of raw material supplies to them is a time-consuming process, shortages of paper and paper boards may again develop in the early 1970s if expeditious action is not taken now to augment both the manufacturing capacity and the raw material resources.

According to the estimates of the Development Council for Pulp, Paper and Allied Industries (DCPPAI), the production of paper and paper boards will have to be raised by 1973-74 to as much as 960,000 tonnes from the present level of about 635,000 tonnes if shortages in the domestic market, after allowing for exports of at least five per cent of the total output, are to be avoided. This will require raising of the paper and paper boards manufacturing capacity to 1.13 million tonnes—an addition of 400,000 tonnes to the existing capacity. Nearly 80,000 tonnes capacity is said to be under implementation at present. So the additional capacity which will have to be created to reach the 1.13 million tonnes target for 1973-74 will be 320,000 tonnes. Some capacity, however, will have to be under implementation during the closing years of the fourth Plan so that the requirements of the early years of the fifth Plan can also be met. It has been estimated that capacity equivalent to 160,000 tonnes will have to be in the pipeline for the fifth Plan period. The additional capacity which, therefore, will have to be licensed now or in the next couple of years will have to be 480,000 tonnes

As regards newsprint, the bulk of the requirements of which are at present met from imports, the installation of new capacity will have to be on a much bigger scale. Currently, we are producing only 30,000 tonnes of newsprint. Another 45,000 tonnes capacity is under implementation. If our newsprint requirements are to be met primarily from indigenous sources and only marginally through imports, the output of this commodity will have to be raised by 1973-74 to as much as 260,000 tonnes. This will require augmenting of the capacity by that year to 300,000 tonnes. Another about 75,000 tonnes capacity, it is estimated, will have to be in the implementation stage in order to meet the requirements of the early years of the fifth Plan. The additional capacity which, therefore, will have to be created for the manufacture of newsprint is 225,000 tonnes by 1973-74 and 300,000 tonnes by, say, 1976-77.

As regards pulp, it has been estimated that the manufacturing capacity will have to be raised by 1973-74 to 180,000 tonnes for rayon grade pulp and 150,000 tonnes for paper grade pulp. At present we have 60,000 tonnes capacity to produce rayon grade pulp. Another 30,000 tonnes capacity is under implementation. About 30,000 tonnes paper grade pulp capacity is expected to be set up soon; at present no paper grade pulp is produced in the country. The additional raw material requirements of the industry by 1973-74 are estimated around 1.21 million tonnes for the production of paper and paper boards, 610,000 tonnes for newsprint, 300,000 tonnes for rayon grade pulp and 316,000 tonnes for paper grade pulp.

If the shortages of paper and paper boards are to be avoided in the first half of the 1970s and a major portion of our requirements of newsprint has to be met from indigenous sources, the task ahead is, indeed, stupendous. The investment required to achieve the above targets has been estimated at the minimum in the neighbourhood of Rs 325 crores, of which the foreign exchange component will be approximately Rs 140 crores. The public sector has plans to invest Rs 60 crores for paper and newsprint manufacture during the fourth Plan. This means that the major burden of expanding output will be on the private sector.

Even though as a result of the recent upward revision in prices, the industry expects higher sales realisations, it remains to be seen whether the expected higher earnings will make a favourable impact on the capital market. The industry may have to depend on institutional finance for a major portion of the fourth Plan investment. But will this finance be forthcoming to the requisite extent unless certain necessary steps are taken? The major handicap in this regard is stated to be that at present the financing institutions recognise the equity-debt ratio only up to a maximum of 1:2. If the prospects of raising equity capital or building up of reserves (which are considered as equity for the purposes of calculating equity-debt ratio) do not improve, the insistence on this ratio by financial institutions obviously will hinder availability of institutional finance for paper manufacture. The industry has been demanding the recognition of a higher debt-equity ratio up to 1:3.

Another suggestion that has been put forth for

augmenting the financial resources of the industry, both in the interest of expansion of the existing units and setting up of new plants, is an increase in the excise duty rebate from the present 25 per cent in the first year, 20 per cent in the second year and 15 per cent in the third and subsequent years of going into production of new capacity, to 80 per cent in the first year, 50 per cent in the second, 30 per cent in the third, 20 per cent in the fourth and 15 per cent in the subsequent years in the case of printing and writing papers and 50 per cent in the first year, 40 per cent in the second, 30 per cent in the third, 20 per cent in the fourth and 15 per cent in the fifth and subsequent years in the case of all other outputs of paper and boards.

The third suggestion is that the upper limit of Rs 50 lakhs for institutional support should be raised as the concept of the smallest economic size of an integrated pulp and a paper plant has undergone a material change in the recent past. Not to speak of 50/60 tonnes a day plant, even a 100 tonnes a day plant is considered to be uneconomic in the present-day conditions. Only plants having capacities to produce 300/350 tonnes a day are now considered to be economic units. It is further suggested that deferred payment facilities which the indigenous machinery manufacturers are affording to the industry should be made comparable to what the foreign suppliers offer.

It may be difficult to prevail upon the Finance Minister to agree to a high excise duty concession to the industry, but liberalisation of the equity-debt ratio, increase in the upper limit for institutional finance and liberalisation of the deferred payment facilities should not pose insurmountable hurdles. The fertilizer industry, for instance, which is also a highly capital-intensive industry like the paper industry, is allowed a debt-equity ratio of more than 1:2. In the case of shipping companies this ratio is even higher. As regards institutional finance, the raising of the ceiling on it will only mean recognising the change in circumstances. It should not be difficult to raise the ceiling as the resources of the institutional financing agencies can be easily augmented through larger borrowings by them in the market or from the government. Increased assistance from financing institutions should also make possible liberalisation of the deferred payment facilities by machinery manufacturers.

The raw materials problem of the industry has also to be tackled equally expeditiously; unless adequate raw materials are ensured, expansion of the industry will obviously have no meaning. Notwithstanding the increased use of hard wood and bagasse in the recent past, the industry is still dependent to a great extent on bamboo as raw material. But not only our bamboo yield per acre is low—just about a tonne per acre—the gregarious flowering of our bamboo species threaten shortages of this raw material periodically. If scientific methods are used for growing bamboo, the yield, it is stated, can be raised at least four times. The flowering of bamboo can similarly be controlled to some extent. But even if bamboo resources are augmented, they will not be sufficient to meet the projected demand. We will have to diversify the pattern of use of raw materials with a view to reducing dependence on bamboo. Significant progress, no doubt, has been made in this regard by using hard wood. But this trend apparently needs to be accelerated. Besides, agricultural residues will have to be made use of.

It is, indeed, encouraging that the forest departments of almost all the states have become conscious of the raw materials problem of the paper industry. They are undertaking establishment of plantations of fast growing species of pulp wood. But due recognition to another problem of the industry in regard to raw material supplies, perhaps, has not yet been given. It is that at present nearly 60 per cent of the delivered cost of raw materials at mill sites is accounted for by transportation charges from forests; only 40 per cent of the cost is on account of royalty and extraction charges. If the transportation expenses can be reduced, the cost of paper manufacture should go down substantially. The industry's plea that the new plantations should be established in medium and low elevations within the economic distance of paper plants deserves consideration.

Greater use by the industry of the services of the Institute of Paper Technology, Saharanpur, which has been set up with assistance from the Swedish government, should also go some way in solving its problem of raw materials. The concern expressed by the Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, at the first meeting of the reconstituted DCPPAI, held in the capital a few days ago, will be shared widely. This institute not only aims at imparting training to operatives and middle level supervisors, but also undertakes research in various problems of paper manufacture.

If the need for substantial expansion in the paper industry during the fourth Plan period is realised, the task ahead for the manufacturers of machinery and equipment is no small. It is a matter of gratification that over the last few years, considerable capacities have been created in the country for the production of plant and machinery for the paper and pulp industry. The position about the manufacture of such equipments as calendering and finishing equipment, continuous digesters, disc repairs, etc., may not be quite satisfactory, but it is possible now to procure a major part of a pulp mill and other ancillary equipment within the country. The machinery manufacturers, however, will do well by keeping themselves abreast of the requirements of their consumers which are bound to alter as the economic scale of paper and pulp production undergoes further change.

Facts and Faces in February

ADDRESSING THE conference on economic outlook held in Calcutta on January 24, Mr L. K. Jha, Governor of the Reserve Bank of India, expressed satisfaction at the fact that "even businessmen are looking and sounding optimistic" at the beginning of 1969. "I attach great importance to this", said Mr Jha, "because traditionally businessmen go about with a long face throughout January and February. They know that at the end of February comes the budget and they believe that if they look and sound sufficiently miserable, they will perhaps evoke some sympathy in the hearts of the authorities". Mr Jha however made it clear that he did not have "the faintest idea of what will be going into the budget" and that no one should seek in his speech any kind of inkling into budgetary secrets.

Mr Jha's analysis of the economic situation is likely to create a feeling of complacency in the union Finance Ministry. He referred to the "tremendous improvement" in foodgrains production, the increase in exports, the stability in prices and the gradual lifting of recessionary conditions. He also dwelt on the recent trends in the capital and share markets and observed, "Clearly, the conditions are most favourable from the resource point of view for the launching of new projects, large and small". It is true, of course, that there are signs of improvement in many aspects of the economic situation. But this does not certainly obviate the need for appropriate adjustments in the tax policy. So long as personal and corporate taxation continues at the current levels, the process of recovery from the recession cannot gather vigour and speed.

Mr Jha admitted that "not many new projects are being launched". This will be clear from the fact that the number of projects sanctioned by the government declined from 1,170 in 1961 to 467 in 1967 and to 186 in the first half of 1968. At the meeting of the Central Advisory Council of Industries held early this month, figures were quoted to indicate the lack of sustained enthusiasm in the capital market. It was emphasised that the capital market had not been reviving rapidly because of the low rate of dividend against the 12 per cent interest on fixed deposits from the public and 10 per cent on debentures and preference shares. Nearly three-fourths of the capital offered to the public had to be underwritten. It was suggested that to revive the capital market, it was necessary to reduce company tax from 55 to 45 per cent. Other suggestions made at the Central Advisory Council as well as at the conference in Calcutta included abolition of the surtax on companies, exemption of shares from the wealth tax and withdrawal of the 10 per cent surcharge in the tax on personal incomes. Equally essential is a cut on excise duties on many raw materials and consumer goods.

Since tax constitutes a substantial portion of the prices of many products, a reduction in excise is necessary to stimulate consumption especially in the rural areas, where purchasing power now stands high because of the abundance in agricultural production. Only by increasing consumption will it be possible to create a large and growing demand for the products of industries many of which still continue to function with sizable idle capacity.

Mr Jha expressed concern at the foreign exchange outlook for 1969. He said that in the current year we shall have a fairly heavy debt repayment burden and some increase in import payments as economic activity gathers momentum. He added that the nature of external assistance in 1969 was not easy to predict though a certain amount of aid inflow was assured because of the aid agreements in respect of past commitments recently signed. It is all the more important therefore that our fiscal policy should facilitate a larger inflow of equity capital from abroad. This country's reputation as being one of the most heavily taxed nations in the world is hardly conducive to attract foreign investors. The flow of foreign private equity capital into our private sector has been meagre, being only Rs 3.2 crores in 1961, Rs 3.5 crores in 1962, Rs 3.8 crores in 1963-64 and Rs 1.9 crores in 1964-65. Mr Morarji Desai therefore would do well to adjust tax rates suitably so as to create confidence and enthusiasm among entrepreneurs, Indian and foreign, so that 1969 may truly become a year of revival.

Mr Jha said that a major problem at present was to identify areas of investment. He observed, "Because in the recent past, most industries in which people used to invest without too much thinking, have been facing conditions in which supply has been in excess of demand, there is an understandable hesitation in making further investment in them". But such a situation was caused not so much by reckless investment by businessmen as by wrong official policies which aggravated the recession. Mr Jha is, of course, right in stressing the need for a study of the new opportunities for investment particularly in industries for which plant and machinery can be supplied from indigenous sources. But what is even more urgent is to prevent the collapse of such traditional industries as jute goods, cotton textiles, tea and sugar. The studies conducted by the Reserve Bank from time to time on the finances of major industries have clearly revealed how their profitability has been seriously eroded because of high taxation on the one hand and the arbitrary increase in wages, on the other. In framing the budget, therefore, the Finance Minister will also have to bear in mind the imperative need to give substantial relief to the traditional industries which play a vital role in earning foreign exchange and in providing employment. The last day of February will reveal whether the hopes or fears of businessmen will be nipped in the bud(get).

Ministerial Responsibility

DR. A. APPADORAI

ON DECEMBER 23, 1968, Mr C. M. Poonacha, Minister for Railways, made the following statement in the Rajya Sabha in answer to a question:—

> As regards policy matters, the ministers are responsible. As regards certain operational matters, they are not directly responsible.

Later, in answer to further questions, he clarified his position:

> As regards day-to-day operations there are various types of operations and several things happen, and I am accountable to this House to furnish all the information and to satisfy the House as to what measures we have to take to control such things.

Do the two statements adequately set forth the conception of ministerial responsibility in a parliamentary democracy? That several members were not satisfied with the statement is clear from the fact that there were several supplementary questions; one member even remarked that the constitutional doctrine that Mr Poonacha had pronounced that day relating to ministerial responsibility was "a strange and unheard of doctrine" and that it must not go unchallenged. Clearly, an authoritative clarification is called for from the Prime Minister on the subject, because Mr Poonacha has not been the only minister in holding the view stated. A former Finance Minister said in Parliament on February 19, 1959:

> It has never been the principle that whatever happens, the minister must unquestioningly accept responsibility ... the discharge of this responsibility must not necessarily result in the minister concerned offering his resignation or in that resignation being accepted.

In the famous Mundhra Enquiry (1953), Justice Chagla explained the doctrine of ministerial responsibility thus:

> .. the doctrine of ministerial responsibility has two facets. The minister has complete autonomy within his own sphere of authority. As a necessary corollary he must take full responsibility for the actions of his servants. It is true that this may throw a very great burden on the minister because it is impossible to expect that in a highly complicated system of administration which we have evolved the minister could possibly know, leave alone give his consent to, every action taken by his subordinates.
>
> But it is assumed that once the policy is laid down by the minister, his subordinates must reflect that policy and must loyally carry out that policy. If any subordinate fails to do so, he may be punished or dismissed, but however vicariously, the responsibility of his action must be assumed by the minister.

Clarification Needed

I suggest that Justice Chagla's exposition needs further clarification, for the question arises: what is the nature of the "vicarious responsibility" to be assumed by the minister, and, in particular, is he bound to resign for any shortcoming in his ministry?

While we are not bound to accept the ideas and practices from Britain or anywhere else, they will surely help us to evolve our own, especially because Britain has had for several decades the experience of modern parliamentary democracy, which we are trying to work.

The classic statement of July 20, 1954, on the subject by Sir David Maxwell Fyfe, Home Secretary, in the famous Crichel Down Case is relevant. Sir David enumerated four different categories of cases in which there might be parliamentary criticism of a department:

i) Where a civil servant carries out an explicit order by a minister, the minister must protect the civil servant concerned.

ii) Where a civil servant acts properly in accordance with the policy laid down by the minister, the minister must equally protect and defend him.

In these two categories of cases, if a mistake occurs, no doubts have been entertained that the minister protects the civil servant by tendering his own resignation, for he had issued the specific order, or had formulated the policy. In 1917 Sir Austen Chamberlain, as Secretary of State for India, resigned after the report of a judicial enquiry into the conduct of the Mesopotamian campaign for which he was technically responsible. In 1922 Mr Montagu resigned for ordering the publication of a telegram from the Government of India pressing for a revision of the Sevres Treaty with Turkey, for which there was no cabinet sanction.

Where Apology Is Enough

iii) Where a civil servant makes a mistake or causes some delay but not on an important issue of policy and not where a claim to individual rights is seriously involved, the minister acknowledges the mistake and he accepts the responsibility although he is not personally involved. He states that he will take corrective action in the department. In 1944 Herbert Morrison, Home Secretary and Minister of Home Security in Mr Churchill's war government apologised to Parliament for a serious mistake which had occurred in the Home Office—their lapse for three years in laying before Parliament the regulations made under the National Fire Service Act, which alone could have given proper parliamentary authority for the National Fire Service. "So I went down to the House of Commons" relates Morrison, "and to its consternation explained what had happened, and confessed my guilt, sincerely apologizing 'in italics' for the offence.... As a whole the House was generous". Morrison corrected the mistake and continued in office.

iv) Where action has been taken by a civil servant of which the minister disapproves and has no prior knowledge and the conduct of the official is reprehensible, then there is no obligation on the part of the minister to endorse what he believes to be wrong, or to defend what are clearly shown to be errors of his officers. The minister is not bound to approve of action of which he did not know, or which he disapproves. But, of course, he remains constitutionally responsible to Parliament for the fact that something has gone wrong, and he alone can tell Parliament what has occurred and render an account of his stewardship.

What does all this amount to?

A minister is responsible to Parliament for the efficient administration of the department entrusted to him; he must be vigilant that the administration is honest, impartial and efficient, and that no rights of the individual are tampered with except according to law. The administration must, necessarily, be left largely to the civil servants, who should carry out the policy approved by the minister.

Where a mistake occurs, and it is clearly due to an order of the minister, or the action taken is in accordance with the policy approved by the minister, the minister must resign his place. Where the mistaken action has not had the approval of the minister or is not in accordance with his policy, but due to the inefficiency of one or more civil servants, the minister should take Parliament in confidence, apologize for it, and should resign his place if the mistake is a serious one, on the ground that though he had not given a specific order, his overall responsibility for the department includes a duty to have an eye on what goes on. Where the mistake is not a

serious one, or where it is due to fraud or to a wilful disobedience on the part of a civil servant, which in spite of vigilance on the part of the minister he could not have in the circumstances been reasonably expected to detect, he need not resign his place. But here again, he must take Parliament into confidence, and explain how the mistake arose and how the circumstances were such that he could not reasonably be expected to be aware of the mistake or to correct it in time. The opinion of Herbert Morrison, with his years of experience as a member of Parliament and as a minister, is entitled to weight: "If a mistake is made in a government department, the minister is responsible even if he knew nothing about it.... It is, however, legitimate for him to explain that something went wrong in the department, that he accepts responsibility, and apologizes for it, and that he has taken steps to see that such a thing will not happen again.... In all these matters, it is well for the minister to be forthcoming in Parliament. Unless the matter is exceptionally serious, nothing is lost by an admission of error. The House of Commons is generous to a minister who has told the truth, admitted a mistake, and apologized; but it will come down hard on a minister who takes the line that he will defend himself and his department whether they are right or wrong or who shuffles about evasively rather than admit that a blunder or an innocent mistake has been made". Ministerial responsibility means that a minister is accountable to Parliament for the satisfactory working of the department, not necessarily ministerial resignation for every mistake that has been made; that depends on how far Parliament is satisfied that the mistake, so far as the minister is concerned, was unavoidable in the circumstances.

Social and Economic Benefits of Standardisation

S. K. SUCHDEV

THE EXPANSION of the present technologies and the projection of new ones along with our industrial progress will call for an increased activity by the Indian Standards Institution (ISI) in the field of standardization for codes and standards at national as well as company level. As our country is in the developing stage and has still to make substantial progress in building new industries and refurbishing old ones, the following basic points are of great importance.

1. Reduction in the cost of production and distribution by eliminating waste, increasing the skill of our workers and manufacturers, promoting scientific research, and applying its discoveries to labour-saving devices and new articles of use;
2. Assurance that the benefits from the reduced costs of production and distribution are passed on to the consumer by way of lower prices; and
3. With reduced prices, the people will be able to buy more and thus help in the establishment of new enterprises, more jobs at higher wages, and ever-rising standard of living.

In today's complex production systems, meaningful variety, as opposed to meaningless product differentiation, to achieve the desired progress is directly dependent on the effective use of standards and the expansion of standardization activity at all levels, that is at international, national, company and individual levels. In fact, only through the use of standards the productive potential of modern industrial techniques can be realised.

Economic Prosperity

Standardization in industry and technology is much more important in relation to economic and social prosperity than is generally realized. Industrially, it defines materials, plant, equipment, processes and practices which render production most efficient and economic. It avoids waste of time, material, labour and capital involved in the production of manifold types, qualities, and sizes of commodities, equipment and materials used to satisfy essentially the same purpose and fixes the dimensions of inter-related component parts of equipment in a way that ensures their interchangeability. Standards are so formulated that they ensure economy, safety, efficiency and convenience in the maintenance and operation of plant and equipment. It also offers the means by which the advances in science and technology can be fully applied to productive processes and practices without a time lag which often deprives the community of much of the value of scientific research

Commercially, it provides a basis for specifying, manufacturing, testing, and buying which places tenders on a comparable basis both in domestic and foreign trade. Thus, it renders competitive trade equitable and intelligible as between suppliers and between suppliers and purchasers.

From the point of view of both commercial and consumer interests, standards place on goods a reliable quality distinction that equips the average purchaser with a substantial degree of that expert discrimination possessed by experienced buyers. They enable the buyer and seller to speak the same language and to benefit from purchasing on a basis of the three factors —price, quantity and quality—without which there are no effective means of interpreting value.

Wide Application

The widest practicable application of the principles of standardization is essential for technological progress, and the most economic utilization of resources, so necessary to develop and maintain full economic strength and security. This is achieved by:

a) the elimination of waste of manpower, materials and productive resources on a large scale, which in turn substantially increase production and correspondingly reduces costs of production, distribution and servicing;

b) reducing the relative cost of commodities purchased, and the works undertaken by the government and public authorities, thereby effecting considerable economies in expenditure; and

c) attaining and maintaining higher quality standards in commodities and services.

For the reason stated earlier, standardization increases the quantity and quality of goods and services available to the people in relation to costs and thereby considerably raises living standards. Especially, when this activity is aided by the use of certification marks or we may say 'Standard Marks', it assists the consumers in comparing quality, in purchasing goods best suited to the required purpose, and in obtaining better value in relation to price.

Keeping in view all the social and economic benefits of standardization, the Government of India set up the national standards body, i.e., the Indian Standards Institution (ISI) in 1947 to quicken the tempo and pace of industrial development in the country. Through a process of intensive consultation among all the interests concerned—producers, consumers, scientists and technologists representing industry, trade and government—the Institution formulates standards which are designed to ensure the widest possible acceptability. So far, ISI has issued over 4,700 standards covering a wide variety of subjects ranging from articles of daily use to various industrial products and materials. For the implementation of standards ISI is operating a Certification Marks Scheme which was launched in 1952 under an Act of Parliament and which provides a third-party guarantee to the consumer that the product purchased conforms to the relevant Indian Standard.

Under this scheme, ISI issues licences to manufacturers for marking their products with ISI Marks. Among the various products covered under this scheme are cables, steel products, electric motors, jute and jute products, plywood,

biscuits, baby food, coffee, electric goods and ready-mixed paints and enamels. The value of goods covered under the ISI Certification Marks Scheme is approximately Rs 3,650 million. The use of ISI Marks has been made compulsory for the export of several items such as steel and steel products, aluminium utensils, and pesticides and their formulations. This had a salutary effect on the quality of our products and, consequently, on the expansion of our export trade.

On the recommendation made by the Planning Commission and at the request of the Government of India, the ISI took up the Steel Economy Programme in 1954. This project consisted of (a) evolution of new standards for steel products, (b) laying down codes of practice for fabrication and use of structural steel in buildings, and (c) popularization of welding in the country.

The aim of the steel economy project was to achieve economy in the use of structural steel by adopting standards from the stage of production of structural steel through designing, fabricating and erection to the maintenance of structures. In production, considerable emphasis was laid on rationalization of shapes and sizes of sections, whose designs had been frozen years ago. The development of new standard sections by ISI enabled a saving of over 10 per cent on steel. All the new mills installed in recent years in this country or to be installed in the future are to produce these new sections. Cold-formed sections made from strip are now being standardized; it is estimated that this will involve a saving of up to 40 per cent of material. Standards for welding equipment and accessories, and codes for welding practices have been developed to provide further economies on steel by eliminating the wasteful process of fabrication involved in riveting. Similarly, improved design codes for steel structurals now enable Indian engineers to use more rational safety factors and loading criteria and permit the use of more economical and up-to-date formulae for design.

Reduction in Varieties

One part of this project was concerned with the rationalization of the varieties of alloy and special steels required for miscellaneous industrial uses. The import of equipment and expert knowledge from all parts of the world had generated in our country a demand for well over one thousand types of alloy and special steels, including tool steels. This was not only wasteful, but also precluded the possibility of developing indigenous production, which would be extremely uneconomical in view of the limited demand for each type of steel. Through systematic study and co-ordination, it has been possible to reduce the varieties to 156 and a further reduction to less than 70 is being attempted. The result is apparent in the development of production facilities of alloy and special steels at Bhadravati and Durgapur. In the final selection of the standard types of steel, due consideration had been given to minimize the use of imported elements such as nickel and molybdenum and to encourage the use of indigenously available manganese and chromium. Guidance to users in choosing steels suited to their particular requirements has been provided in IS : 1870-1965 Comparison of Indian and Overseas Standards of Wrought Steels for General Engineering Purposes.

On a conservative estimate about 20 per cent of steel might be saved if measures now available to the eng'neers were fully implemented. To have a proper assessment of the saving in structural steel through implementation of the standards, the National Council of Applied Economic Research, (NCAER) made an exhaustive study and estimated that a total saving of 23.6 per cent was achieved during the second five-year Plan period.

The headway made in this project, bearing upon the economy aspect of standardization has not only resulted in the conservation of the country's resources but has also won a measure of international recognition as is evident from the help sought on steel standardization by Latin American countries. These countries took a keen interest in the work done by us with regard to standardization of steel projects. On the recommendation of the Economic Commission for Latin America (ECLA) in October 1956, a similar project was undertaken in co-operation with the Pan American Standards Committee, the Latin American Iron and Steel Institute and the Organization of American States in the year 1961, for which ISI rendered assistance by way of training standards engineers.

The pioneering work done by ISI in the field of standardization and rationalization of steel rolled sections has also attracted the attention of ISO. As a result, India has been entrusted to hold the secretariat of the International Working Group ISO/TC 17/WG 8 Dimensions of Hot Rolled Steel Section.

For achieving economy and efficiency in the execution of river valley projects, particularly in the context of the expanding activities in this sector of nation-building activity, standardization work in multipurpose river valley projects was taken up by ISI.

Considerable Saving

A large number of committees were set up to undertake the work of formulation of standards and their implementation. This standardization activity gathered further momentum with the Government of India deciding to spend a large sum of money on irrigation and power schemes during the fourth Plan period, which is roughly one and a half times the amount proposed to be spent on housing and water supply. It is, therefore, obvious that even a small percentage of savings achieved in the outlay on irrigation and power projects will result in considerable overall savings.

Another major project which has been taken up recently is the drawing up of a National Building Code which opened a new chapter on standardization work and is as important as some of the earlier projects such as steel economy and multipurpose river valley projects. This code is intended to serve as the basic document to regulate building activities throughout the nation, giving all the relevant information on building design and construction work applicable to different parts of the country. Recently, the Guiding Committee which is responsible for the formulation of the code held its first meeting under the chairmanship of Maj-Gen Harkirat Singh, Adviser (Construction), Planning Commission, and decided that this code would comprise ten parts dealing with definitions, administration, general building requirements, fire protection (or classifications of buildings and requirement based on occupancy), building materials, structural design, construction practices and safety, building services, plumbing services, and signs and out-door display structures.

The main aim of the National Building Code is to rationalize, unify and bring up-to-date the various outdated building bye-laws and handbooks adopted by various construction agencies including government departments, municipalities and other local bodies.

There are quite a good number of other examples which can be very easily quoted to highlight the economy achieved in national resources through standardization. Standards have lowered costs in automobile batteries and lamps, X-ray tubes, cables, etc. As examples of ISI's numerous contributions in several other fields of standardization may be mentioned ushering in the use of aluminium as an electric conductor in place of scarce copper, adoption of the indigenous Ennore sand as a substitute for Leighton Buzzard sand imported from the UK for the testing of cement and facilitating the utilization of the waste blast-furnance slag for producing portland cement. Especially, ISI has done pioneering work on metricization, company standardization, training of standards engineer, etc., which are of great help in generating standards-consciousness among the public.

Focus on Fertiliser Production

A. SACHIDANANDAM

OUR COUNTRY has made substantial progress in developing its fertiliser industry during the three Plan periods. The production of nitrogenous fertilisers has increased ten-fold during this period. Increases have also been recorded in the production of phosphatic fertilisers. While these increases are impressive, any satisfaction in this regard has to give way to sober thinking when we compare our position vis-a-vis the world production and consumption of fertilisers (see Table I).

It is clear that our production in relation to such countries as the USA, the USSR, Japan and West Germany is small. Our position in this respect does not compare favourably even with such countries as Bulgaria, Spain and the UAR. Besides, our consumption of fertilisers has grown in such a way that the gap between production and consumption would continue to widen unless efforts are made to augment production.

The Minister for Petroleum and Chemicals is hopeful that a capacity of five million tonnes would be established by 1975-76. If we achieve this target the farmer will feel assured of fertiliser supplies for which we are at present dependent on the availability of foreign exchange. While the minister feels that a total capacity of 2.16 million tonnes by 1970-71 and 3.5 million tonnes by 1972-73 would be established, one may be sceptical whether our policy in this respect would lead us towards the achievement of this goal. There are several proposals pending approval before the authorities concerned. The process of approval is indeed time-consuming, particularly when foreign exchange commitments are involved. It is important to examine the proposals taking into account the present as well as the future demand for fertilisers of the cultivating population. It is also necessary to foster growth of the public sector to the maximum and supplement it by adequate development of the private sector. It is in this connection that emphasis needs to be laid on evolving a suitable approach for increasing production.

Industrial Policy Resolution

The Industrial Policy Resolution of 1956 which continues to govern our approach to industrial development emphasises the growth of the public sector and the co-operative sector for accelerating the rate of economic growth. The resolution states: "It is urgent to reduce disparities in income and wealth, which exist today, to prevent private monopolies and concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly the state will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. At the same time, as an agency for planned national development in the context of the country's expanding economy the private sector will have the opportunity to develop and expand". This policy has been pursued in respect of the fertiliser industry. The Fertiliser Corporation of India has been constituted with the same end in view. The private sector has also made some progress in this field as may be seen from Table II.

During the first three Plans, the growth of the fertiliser industry took place primarily in the public sector; its share was as high as 96 per cent of the total installed capacity.

The Industrial Policy Resolution has been underlined and elaborated in the approach of the Planning Commission to the fourth Plan. The Planning Commission wants to "bring about conditions within which the maximum utilisation of capacity already built up is achieved; ensure that new investments are undertaken in accordance with plan priorities making due allowance for long gestation-projects, particularly those dictated by the need to increase exports and limit dependence on imports; encourage the emergence of widespread entrepreneurship and a greater dispersal in the ownership and control of industries". Presumably it is in this context that many proposed fertiliser projects are being examined. How many of them would stand scrutiny and secure approval remains to be seen. Continuous and rapid economic growth is possible only when the approach of the government is realistic. The problem of acute shortage of fertilisers needs to be viewed in the context of heavy imports and the consequent continuing drain on our foreign exchange resources. The government should, to the extent feasible, undertake setting up of heavy industries and should simultaneously encourage entrepreneurial talent for forming a democratic base for our industrial system. Encouraging the established industrialists to set up industrial units is imperative for stimulating the pace of economic development.

Important Considerations

While the objective of preventing concentration of wealth and economic power in a few hands and equity in the distribution of income needs to be taken care of, it appears prudent to base decisions on more important considerations such as increasing agricultural productivity and economic growth, and comparative economic efficiency. Sir Donald MacDougall has in an interesting discussion on creating export potential for promoting exports observed that "it is essential to go all out for maximum economic efficiency and low costs, even if this conflicts with other considerations... Where economies of scale are important it is vital to concentrate on large plants even if it means less rational dispersion of industry and more concentration of economic power". Similarly in one of his talks on "Approaches to Economic Development in Emerging Nations" Dr Max F. Millikan observes, "Equity in distribution of income is most commonly talked about, though it is specifically lacking in the developing countries. But hastening towards equal distribution at early stages would amount to distribution of poverty and hence increasing productivity must be the sine qua non of the policy."

Unless special measures are taken, the supplies of fertilisers are likely to be a major impediment. It would be essential to make arrangements for the speedy establishment of requisite number of factories with sufficient capacity to pro-

duce fertilisers indigenously though this may cause temporary strains on our resources necessitating adjustments in our foreign exchange position.

The Minister for Petroleum and Chemimals, hopes that fertiliser prices in this country could be brought down by 30 per cent in the next 10 years. The need for reducing fertiliser prices is urgent because as Dr Fisher has said "for much of the arable land of India the choice does not lie between inorganic and organic but between organic and no fertiliser. The only method of increasing the humus content of the soil is then through the application of inorganic fertilisers, so producing larger crops and making available larger organic crop residues. In this way and in no other is there any real hope of improving the organic status of the soil over large areas of India".

TABLE I
COUNTRY-WISE PRODUCTION AND CONSUMPTION OF FERTILISERS

('00 tonnes)

Country	Nitrogenous				Phosphatic				Potash			
	Production (N)		Consumption (N)		Production (P2O5)		Consumption (P2O5)		Production		Consumption	
	1948-49 to 1952-53	1965-66	1948-49 to 1952-53	1965-66	1948-49 to 1952-53	1965-66	1948-49 to 1952-53	1965-66	1948-49 to 1952-53	1965-66	1948-49 to 1952-53	1965-66
1	2	3	4	5	6	7	8	9	10	11	12	13
Bulgaria	36	2458	154	2191	NA	NA	NA	NA	Nil	Nil	4	101
France	2520	10397	2586	8706	4397	8653	4200	12576	8412	18569	3621	9698
W. Germany	5155	14189	3650	8738	3620	8568	4055	8192	9981	23348	6603	11903
Spain	155	3216	799	3455	1580	3188	473	3079	1645	3785	395	1415
USSR	4259	27120	2805	22820	4660	15990	4420	15040	3430	23680	4220	18210
USA	10804	51610	11729	48205	20230	42390	19635	33668	11756	25930	12430	28652
Japan	4072	16150	3850	7750	2306	5880	2245	5460	Nil	Nil	1407	6070
UAR	71	1600	804	2606*	114	465*	177	431*	Nil	Nil	9	9*
India	236	2379	631	5826	103	1188	115	1343	Nil	Nil	51	896
World total	45211	192009	42714	175125	60565	147723	60941	143994	48169	135672	44848	119665

* For 1964-65.

Source: 'Fertiliser Statistics 1966-67' Pp. 295-305. Fertiliser Association of India.

TABLE II
PRODUCTION OF FERTILISERS EXPRESSED IN METRIC TONNES OF N and P2O5

Year	Factories in production of N fertilisers				Factories in production of P2O5 fertilisers			
	Public Sector		Private Sector		Public Sector		Private Sector	
	No. of units	Installed capacity (Tonnes)	No. of units	Installed capacity (Tonnes)	No. of units	Installed capacity (Tonnes)	No. of units	Installed capacity (Tonnes)
Before 1950-51	1	70,000	4	9,890	3	19,210	9	65,420
1951-52	1	1,17,000	—	—	—	—	1	3,760
1957-58	—	—	—	—	—	—	1	12,190
1958-59	—	—	—	--	1	3,760	--	--
1959-60	1	6,720	1	10,000	—	—	—	—
1960-61	2	84,370	—	—	2	72,000	2	13,490
1961-62	—	—	1	8,000	--	—	3	30,570
1962-63	1	60,000	—	—	—	—	4	28,760
1963-64	—	—	—	—	—	—	2	11,860
1964-65	—	—	—	—	—	—	1	8,130
1965-66	2	1,60,000	—	—	—	—	1	6,500
1966-67	1	5,770	—	—	—	—	—	—
1967-68	2	1,25,000	3	1,84,000	1	12,190	5	1,44,140
Total	11	6,28,860	9	2,11,890	7	1,07,160	28	3,24,820

Compiled from data available in 'Fertiliser News', June 1968

WINDOW ON THE WORLD

World Monetary Outlook: 1969

JOSSLEYN HENNESSY

LONDON:

SIX LEADING banks—Barclays of London, the Bank of America N.T. and S.A., the Algemene of Holland, the Banque Nationale of Paris, the Dresdner of West Germany, and the Banca Nazionale del Lavoro of Italy—have combined to finance a spectacular new venture—the multinational Societe Financiere Europeenne, with the object of aiding European and other companies to modernise and to expand through long and medium term loans, equity financing, and advisory services for acquisitions and mergers.

The massive funds and combined expertise of these banks lend authority to the lengthy report on the world monetary outlook for 1969 just published by the Societe Financiere Europeenne to mark its inauguration, of which I here offer you the highlights.

The six banks kick off by breezily pronouncing that the three currency crises, which the international monetary system weathered in 1968, will not be the last! The problems of maintaining full employment and price stability are shared by all the major countries, which agree that solutions must be sought while maintaining international monetary order. They also recognise that it is essential to accommodate differing rates of change in national incomes, prices, and costs, within a state.

The Dollar

The six banks expect that international confidence in the dollar will not falter in 1969. There should be no critically large movement of funds out of dollars into gold or other currencies. They expect President Nixon to follow "appropriate" policies towards inflation and the balance of payments.

After the sharp advance of 1968, the pace of activity will temporarily slow, as higher taxes and smaller increases in government expenditure restrain private demand. This will lead to somewhat lower rates of interest in the first months of 1969. Part of the increase in interest rates in the past few months was a technical correction of the sharp drop in rates after the passage of the tax increase in July, 1968. Another factor has been the widening belief that the business slow-down will be milder than expected and that inflationary forces will continue to cause concern.

Although business activity in the latter part of 1968 strengthened these beliefs, appraisals of the pattern of gains, plus recognition that the full impact of the fiscal restraints has yet to come, suggest that business expansion will slow down in the early part of 1969. The rate of increase in consumer spending will fall and federal government expenditures rise modestly through mid-1969. The GNP should also grow at a five per cent annual rate till then, so that the rate of industrial expansion will decline and unemployment rise.

The near-term outlook for the balance of payments is good. In the first half of 1969, the strengthened budgetary position should improve the trade account. Unless the resurgence of economic activity in the second half of 1969 is more inflationary than expected, or unless the Vietnam war escalates unexpectedly, the surplus on goods and services should rise from that attained in 1968. At the same time, the inflow of foreign capital for portfolio investments may not continue at the remarkably high 1968 rate, so the full impact of the improvement in the trade position will not necessarily lead to a further reduction in the balance of payments deficit. Even if the deficit rose in the second half of 1969, the six banks foresee no dollar crisis.

The Franc

Behind the measured terms in which the six banks discuss the French franc, I detect a distinctly nervous note.

The events of May, 1968, have aroused fears concerning the French economy. Both foreigners and French citizens took large amounts of capital out of the country. The government's re-establishment of exchange controls in May, and of a premium on foreign securities traded on the Paris stock exchange, lowered the franc's high international prestige, and aroused fears of a devaluation, which caused the franc to fall by 10 per cent in both the foreign bank note market and the gold market. The return to order was, however, rapid and in less than three months it appeared that the loss in industrial production following the May-June strikes would be made up, so the government restored freedom in foreign security and exchange transactions in September. The franc returned to par.

Nevertheless, the surtax on the income-tax, which the government imposed in order to reduce the deficit in the budget caused by the rise in salaries, affected confidence in the franc, while the possibility of Deutsche mark re-valuation created speculative movements to the detriment of the numerous national currencies, notably the franc's parity.

The question now is whether French companies can absorb the 10 per cent rise in salaries and social security costs without inflating their prices and diminishing their competitiveness abroad. To achieve this will be difficult but not impossible. The French government will help the companies by investment allowances, a reduction of financial charges on bond issues, and by abolishing the payroll tax. The EEC agreed to allow France to impose temporary import restrictions only on condition that they are removed within six months. The industrialists will thus be encouraged to rationalise and to increase co-operation with companies outside France in order to improve productivity.

From this it follows that France must boost its capital expenditures. Where will the funds be found?

During the next few months, the money market should be favourable, since savings are high. Rates for long-term money will remain around eight per cent for the borrower and should begin to drop only if short-term interest rates decline. On the other hand, short-term rates remain high in most countries as a means of monetary defence.

Additions to long-term capital on the domestic market might come from Eurocurrencies, particularly Eurodollars. Many firms will try the Eurocurrency market for funds, since the risk of borrowing in foreign currencies is small for companies which export and receive income in foreign money.

Short-term bank rates will remain tied to a large extent to the Bank of France's discount rate. Inflationary pressures have recently compelled the government to restrain credit with the result that interest rates have risen. The only hope of a real easing in the money market rates is if balance of payments equilibrium can be achieved soon.

"The evolution of the economy and of the balance of

payments should be watched during the next few months because they could modify what happens in the second half of 1969" an enigmatic conclusion! Watch out!

The Guilder

The Dutch economy is all set for prosperous growth in 1969 Exports, largely as a result of the favourable conditions in West Germany, have contributed greatly to Holland's recovery. In the first three quarters of 1968, export volume was about 15 per cent above the level of the same period of 1967, and exceeded the forecast of 11 per cent for the entire year of 1968.

A few months ago the Central Planning Bureau forecast that the volume of exports would rise by eight per cent in 1969; this was lower than was anticipated for 1968, because the policies of some customer countries, which were reconstituting their foreign positions, were adverse to Dutch exports After the forecast, a currency crisis, followed by drastic measures, occurred in western Europe. The measures taken by France, West Germany, and the UK will affect Holland's foreign trade. West Germany's decrease in import duties should help Dutch exports, but as they also benefit Holland's competitors, much depends on the aggressiveness of Dutch exporters. France's austerity programme need not hit Dutch exports because France is not one of Holland's major customers.

The growth of total Dutch exports may slow down if domestic spending expands; public authorities' spending will rise again; the rise in private consumption may be limited if wage increases can be kept reasonable. The rise in industrial investment which began in 1968 continues, but credit squeezes are expected to keep it within bounds.

Holland's export prices are competitive. Wage costs per person employed, including social charges, will rise by 6.5 per cent in 1968-69 as against 8.5 per cent in 1967; labour productivity will rise by an average of five per cent. Wages are, however, uncertain because the 1969 wage increases are still being negotiated.

Structural Unemployment

Unemployment persists at the somewhat high level of 2.3 per cent, largely because it is structural and regional. The government's efforts to combat structural unemployment may reduce it in 1969. The balance of payments presents no serious problem at the moment. On a transaction and seasonally adjusted basis, the current account, in the first six months of 1968, showed a surplus of $110 million against a deficit of $15 million in the same period of 1967. For 1968, as a whole, a small surplus was expected, and for 1969 a surplus of $190 million. The measures taken by various countries in November may, however, alter these figures. Developments in West Germany are important because it is Holland's biggest customer, taking about a fourth of Dutch exports. The export of natural gas should yield a sharply rising income in the next few years.

The balance of the current account and stockpiling amounted to about 2.1 per cent of the national income in 1968 (Cf. one per cent in 1967), which means that it still lags behind the longer term target of about 2.5 per cent, but the arrears are likely to be made up to some extent this year.

Stock transactions with foreign countries were important in the first six months of 1968. The sale of domestic stocks brought, on balance, $60 million compared with $10 million in the first six months of 1967. Purchases of foreign stocks in the first six months of 1968 withdrew, on balance, $112 million from Holland against $15 million in the first six months of 1967. Last year's fairly large amount was, to a great extent, the result of the increased appeal made to the Dutch capital market, where guilder loans of the World Bank and the European Investment Bank were placed. The capital market shows no sign of easing. Given the potential demand for capital on the part of the government and the municipalities, a decline in the domestic interest level, stationary for many months, is unlikely in the near future.

The prospects for the guilder and for the Dutch economy are good, although as long as international currency unrest continues, and the effect of the measures taken by foreign countries are not known, some uncertainty exists.

The Mark

West Germany's decision not to revalue the DM and to contribute instead to the improvement of the international payments situation by a four per cent tax on exports and by subsidising imports with a four per cent tax rebate, eliminated for the time being the uncertainty about the DM's parity. These tax measures will continue until March, 1970, but it is important to note that the West German authorities believe that a general realignment of the exchange rates—perhaps with some increase in the margins of fluctuations—is desirable. If a realignment were to take place, the present tax rebates would be abolished.

Economic growth, now almost equally stimulated by the expansion of capital expenditure and of private consumption, has strongly accelerated over recent months. The GNP in real terms is expected to have grown by about six per cent in 1968, and is expected to continue in 1969, although more slowly, despite the tax on exports and the tax encouragement of imports. Average corporate profits will increase only slightly or remain stationary, so that the stock market is cautious.

Strong improvements in productivity and moderate wage increases since the recession of 1966-67 have stabilised prices, but the depletion of the labour reserve and the high employment of capacity already attained (88 to 90 per cent) could cause them to creep up again. On the other hand, the restrictive measures, which also aimed at moderating an eventual upswing of prices, reduce the danger that excess demand will cause prices to rise.

The effects of the new foreign trade measures on the balance of trade will hardly become clear before the end of March. Since export deliveries prior to December 23, 1968 were not subject to the new export tax, an exceptional volume of exports was expected in December, distorting the surplus for that month as well as for the entire year of 1968. Exports should now therefore incline to fall. The estimates are that the surplus in the 1969 balance of trade will decrease by about 30 per cent to about $2,500 million.

Open Market Policy

Strongly encouraged West German capital exports should reduce the balance of payments surplus during the transitory period until the normalisation of the balance of trade has been achieved. For that reason alone, if not to support the internal economic upswing, West German interest rates should remain at present levels. The Bundesbank, therefore, is unlikely to raise its discount rate or the minimum reserve requirements; on the contrary, an open-market policy to stabilise the interest rate on the capital market at about 6 to $6\frac{1}{2}$ per cent per year is likely. The high and rising amount of private savings and the strong competition among banks also suggest the continuation of relatively low interest rates.

The "hot" money which flowed to the banks after mid-November, 1968, was prevented from getting into monetary circulation by a change in the minimum reserve regulations. As a defence against a future inflow of hot money from eventual new monetary crises, new or increased deposits in German banks from non-residents are now subject to authorisation. Non-residents do not in any case get interest on their deposits.

It follows that the West German capital market should be, for the foreseeable future, a substantial source of finance at relatively attractive interest rates. Currently, normal busi-

ness loans bear interest rates between 6.5 and 7.5 per cent. Large additions to savings deposits have enabled the banks to expand their medium and long-term lendings more than ever before.

The Pound

The UK authorities have been trying to get interest rates down to lower levels than those of the past four years. Recent currency uncertainties have, however, reduced their chances of success. The Labour party is traditionally opposed to high rates, and they have also been worried about the burden which present rates of interest place on the balance of payments. That was why, following some good trade figures last summer, the Bank rate was reduced in September by ½ per cent to seven per cent.

Further reductions depend on the state of the world economy and of the UK external balance. So far the prospects for further reductions are slight. Given better trade figures and a lessening of European currency tensions, the Bank rate would be reduced by another ½ per cent. At the present time, however, it is difficult to see how the rate could be brought lower than 6.5 per cent in the next six months. Few countries are likely to feel so secure about their payments balance during this time that they could afford to lead the way in rate reductions. Indeed, the indications are that the UK Bank rate may move up to 7.5 per cent in the near future, possibly even before these words are published.

In the US it looks as though interest rates will remain relatively high, and this must affect the UK. Moreover, the UK's debts contracted in the Basle agreement, as well as recent currency uncertainties, make it imperative to keep a tight hold on the international financial situation.

Interventionist tactics (such as the ceiling on bank advances) now offer less scope for manoeuvre following the Chancellor's announcement in November that the ceiling would be effectively lowered, a move which could reduce the total of clearing bank non-fixed advances to the private sector by £100 million. Heavy tax flows in the first quarter of the calendar year 1969 will probably cause an unusually sharp contraction of bank liquidity, which will of itself add to the upward pressure on rates. Currently borrowing in the UK's long-term capital market on industrial debentures costs first-class borrowers between eight and nine per cent, and fears of erosion in the value of money add to the pressure on rates. The UK's balance of payments is expected to move into surplus during 1969, possibly to $250 million, but much depends on developments in world trading policies.

Of vital importance is the way tighter monetary policies have been affecting British commerce and, even more, what will be the future pattern of events. Two or three years ago the prospect of tighter monetary conditions did not cause undue worry. Today it does. Industry has become much more cost-conscious and has introduced many economy programmes. One result of greater efficiency has been that during 1968 many companies published results which were better than expected. Medium-sized industry, on the other hand, has been hampered by shortage of working capital. After nearly a generation of inflation we cannot expect a turnabout overnight. Nevertheless the squeeze on British finances is becoming tighter and is becoming felt everywhere.

Growing Indo-Ethiopian Co-operation

K. K. G. NAMBIAR

MR G. D. Birla's recent visit to Ethiopia at the invitation of Emperor Haile Selassie to explore business opportunities in that country is indicative of the trust and confidence Ethiopia has in this country's ability to contribute to Ethiopian economic transformation currently in full swing.

It goes to the credit of Birlas that they were the first to take the initiative to start Indo-Ethiopian ventures. Birla Bros has set up two cotton textile mills in Ethiopia which was followed by a woollen textile unit by Duncan Bros (Calcutta) and an oil and soap unit by a Bombay soap factory. Plans are afoot to set up Indo-Ethiopian ventures for jute goods, plastic goods, alarm clocks, synthetic fibres etc. Birla Bros is also to go into cultivation of cotton in Ethiopia which is expected to save considerable amount of foreign exchange. Indo-Ethiopian economic relations are thus taking a crucial and important turn. Mr Birla's visit has strengthened the bond between the two countries. The introduction of a bi-weekly flight by Air-India from October last to Addis Ababa also augurs well for the Indo-Ethiopian economic co-operation.

Judged from press reports, Mr Birla has been able to build a good image for our ability to be a major partner in Ethiopia's economic development. He has promised this country's readiness to help Ethiopia with "knowledge and experience". He is also reported to have stated that he would be happy to train Ethiopian personnel in his technical and other institutions so as to raise the level of human resources, the paucity of which is causing concern to the Ethiopian government, especially when the rate of literacy in that country is only five per cent. Mr Birla's offer should therefore provide considerable fillip to the Ethiopian government in its efforts to train its workers in different spheres of industry.

According to Mr Birla, his group of industries is planning the expansion of its business operations in Ethiopia and is now exploring the possibilities of starting a factory for the production of paper from bamboo. Ethiopia has large bamboo forests and it should be possible for Birlas to set up a paper unit which will help her to be self-sufficient in paper. At present Ethiopia meets its paper requirement through imports. A pulp and paper factory is under construction to produce 7,500 tons of paper annually against the estimated internal consumption of 10,000 tons per annum. A paper unit built in collaboration with this country would therefore be a significant contribution to Ethiopia's industry. The textile mill set up by Birlas has also undergone expansion. Started initially with an installed capacity of 12,000 spindles, 300 looms and a small finishing plant, the unit is now having an installed capacity of 37,000 spindles and about 825 looms and a modern finishing plant comprising a chainless mercerising machine.

A number of other fields are also available for this country to initiate joint ventures in Ethiopia based on locally available raw materials. For instance, the prospects for units producing meat extracts, cube meat extracts and preparations to make instant soup are said to be high. Another promising field is the leather and leather shoe industry. Although there are units producing textile products, the local production covers hardly half the indigenous demand. Opportunities are therefore available for putting up factories for manufacturing underwear fabrics, knitwear, threads, stockings, wearing apparel, carpets, hard-fibre goods, including sacking and bags, twine and ropes.

Other fields available for investors are the manufacture of semi-chemical pulps and their products, pulpboards, building paper, match and book-board and other grades of paper. A good opportunity might be found in the extraction of etheric oils from a wide variety of herbs growing in Ethiopia. Floor and wall tiles, sanitaryware, electric fixtures, boilers, kitchen stoves, plumbing fixtures etc., are other promising fields awaiting investors.

In order to stimulate and encourage private capital invest-

ment, the Government of Ethiopia, during the last few years, has enacted important legislative measures and treaties. Among these are the Investment Decree, Investment Guarantee Agreement, Banking Law and the Technical Agency Order. The Investment Decree of September 1963, gives incentives to domestic and foreign investors by affording them certain facilities and benefits. Among the special privileges accorded to private investors are relief from import and export duties as well as from income-tax. American investors in Ethiopia are insured against inconvertibility, expropriation and risks arising from wars, revolutions and rebellions under the Ethio-US Investment Guarantee Agreement.

The investors from this country should take advantage of this conducive investment climate in Ethiopia and initiate joint ventures which will provide considerable fillip to many of our industries. The initiative rests with our industrialists and the Government of India too should extend necessary assistance and facilities to encourage them to successfully conclude agreements on joint ventures. Industrially, Ethiopia continues to be backward, and India's major involvement in Ethiopia at a time when she is making a desperate bid to achieve at least a tolerable degree of industrialisation, will gain for India a significant economic footing in Ethiopia.

The trade relations between India and Ethiopia were put on a firm footing in early 1953 when following the visit of His Imperial Majesty Emperor Haile Selassie, a trade agreement was signed in New Delhi. Under the agreement, the two governments have agreed to extend each other the most-favoured-nation treatment in respect of customs duties, other taxes payable on imports and exports and all customs relations and formalities. Yet, the Indo-Ethiopian trade has not grown substantially. Our exports to Ethiopia which totalled Rs 241 lakhs in 1960-61 declined to Rs 126 lakhs in 1966-67. True, our imports from Ethiopia also registered a decline from Rs 2.60 lakhs in 1960-61 to Rs 1.13 lakhs in 1966-67. India's share in Ethiopia's total imports during the month of January 1968 was just two per cent.

Principal Exports

The principal items exported from this country to Ethiopia continue to be traditional items such as textile yarn, spices, jute sacking bags, tea, umbrellas etc. Even in these there has been a sharp fall, with the export of umbrellas and jute sacking bags touching the lowest pitch in 1966-67. With Ethiopia concentrating on the indigenous production of several items now being imported from our country, exports from this country are likely to shrink further. The only way to counteract the declining prospects will be for India to pay more and more attention to the export of non-traditional goods, especially such items as iron and steel, electric power machinery, agricultural machinery and implements, petroleum products, clothing, rubber articles, motor vehicles, glass manufactures etc., for which there is an assured market in Ethiopia. Bicycles will be another item of export which this country can think of. The major exporters of bicycles to Ethiopia are Japan, Italy, UK, West Germany and France.

The position of this country as a supplier of goods to Ethiopia is disquieting in that the ninth position enjoyed by her amongst the various supplying countries during 1964 and 1965 has now come down to about fifteenth position. While others have steadily maintained their position, Italy and Japan have increased their share considerably during the last few years. Communist countries including Red China have recently emerged as important suppliers to Ethiopia. There is need for this country to view its declining share of trade with concern and take steps to correct the situation.

India's efforts to foster close economic and trade relations with Ethiopia is bound to yield good results. There are a good number of Indians in Ethiopia engaged in trade and business who will definitely be in favour of trading with India provided they get quality goods at a competitive price. Further, the Government of Ethiopia has also demonstrated that it would welcome close trade and economic collaboration with India and have promised to do all it can to foster such relations. Thus, the time for India to embark on serious and close Indo-Ethiopian economic collaboration is more propitious..

During the last ten years, there have been many strides in every sphere of Ethiopian life. The Emperor who commands the respect and affection of his people committed the nation to systematic economic planning. In 1957, the government adopted planning officially and since then two five-year Plans have been completed and the third five-year Plan is being implemented at present. The first Plan mainly concentrated on the development of infrastructure to accelerate the economic development which resulted in an appreciable spurt in the industrial sector during the second Plan. The availability of raw materials locally, especially in food industry, beverage, tobacco manufacturing, leather and shoe industry contributed to the development of manufacturing industry. During the period of the second Plan, the economic growth rate has been estimated at 4.3 per cent per annum against 3.4 per cent during the first Plan and the economy is expected to grow at least at the rate of 5 per cent per annum during the third Plan.

Industrial Development

In the industrial field several units such as cement factories, shoe factories, textile mills and oil refineries have been established. Development of chemical industry for the production of paper pulp, caustic soda, pharmaceuticals, glass, paint and varnishes has been initiated. It is said that about 28 manufacturing units are presently under construction in Ethiopia covering food and beverage items, cotton blankets and thread, paper, chemical and rubber products, building material and light engineering items.

The prudent and realistic foreign policy pursued by the emperor helped him to get financial and technical assistance from both western and communist countries which was a major factor in accelerating Ethiopia's economic development. Though a huge deficit in the foreign exchange resource is envisaged during the current plan, it is assumed that aid giving countries, especially the USA which has been the largest aid-giver to Ethiopia, will continue their assistance. Another bright side is the reported sympathy of Mr McNamara, the President of the World Bank, for Ethiopia. The World Bank and its group have already extended substantial financial and technical help to Ethiopia.

Although industrialisation has gained appreciable momentum in Ethiopia during the last few years, about 90 per cent of the population continues to be engaged in agriculture, many of them under a complex land tenure. Out of an estimated population of 23 million in 1967, only a little more than 50,000 plus a small seasonal work force is engaged in the manufacturing industries which contributes just three per cent to the Gross National Product and forms 6 per cent of the total exports of the country—largely in the form of agricultural by-products. Coffee is by far the largest and most valuable export crop of Ethiopia amounting to nearly 60 per cent of Ethiopia's total exports.

Efforts to modernise agriculture have not led to any significant results due mainly to the complex land tenure system. Only about 15 per cent of suitable land is under cultivation at present. Notwithstanding his urge and vigorous efforts to modernise Ethiopia, the Emperor has been very much reluctant to introduce radical reforms in the land tenure system for fear of annoying a powerful section of the Ethiopian society. But delay is bound to jeopardise the Ethiopian economy since it is the agricultural sector which will decide the future economic growth. The opportunities for advancement in agriculture are considerable. If Ethiopia can successfully reform the archaic land laws, the country's vast agricultural potential can be more fully exploited.

National Interests to the Fore

E. B. BROOK

VIENNA:

THE CONTINUING economic organisation of Europe under three associations—the Common Market, EFTA and Comecon—with the probability of a fourth emerging among the Scandinavians is beginning to worry more than a few.

As between west and east Europe the political division is sharpened by diverse economic organisation and method. Inside western Europe diverse economic organisations impede the political unity that is their expressed desire and aim. The deliberate exclusion of some candidate members, notably Britain, from the Market sharpens the division also between that organisation and the sterling group and spreads the artificial division of Europe indirectly throughout the world.

A growing number of those concerned with the day-to-day running of the Market and of EFTA are realizing that a great amount of time has to be given to the task of attempting to resolve disharmonies where none should exist and that the achievement of a unified policy within the Market on, for example, traffic loses half its value because the agreed policy applies to only a section of western Europe whereas the traffic concerned moves over a far wider area of the continent.

The situation is typically European—concentrated, competent but narrow, limited either by states' frontiers or by the bounds of a treaty's validity. So, far from there being any policy that is pan-European there is scarcely one that applies throughout Europe west of Stalin's iron curtain which remains as an ugly, deadly physical fact, costing lives, impeding trade and travel and obstructing even the exchange of ideas. Europe has for nearly a quarter of a century been, in fact, two continents, not one, with the bigger part forcibly held together and the smaller and wealthier divided by differing and sometimes competing economic organisations.

While these comments may be a trifle ungenerous to the Market's and EFTA's achievements in helping to increase the flow of trade and in reducing tariffs between their members, the latter achievement illustrates the point of the criticism—the extent of the achievement is limited to the organisation's membership.

The broader post-war achievements in encouraging trade and reducing its imposed costs, such as tariffs, have been world movements in which Europe has taken part but has not, in the main, initiated policy.

The Kennedy Round

The most extensive and successful has been the Kennedy Round whose effects in tariff reduction are still being implemented throughout the world. The latest such reductions have been made this month in the USA, Canada, Australia, New Zealand, Austria and Switzerland. The current reductions over thousands of products are small but when the series of tariff reductions is complete three years from now they should result in many reduced prices.

But even so, some countries have delayed their promised cuts on one pretext or another; France is one of them. France is also the subject of criticism, and possible prosecution before the Court of Justice in Luxemburg, by the Executive Commision of the Common Market for failing to operate a previously agreed schedule in reducing export aids. What particularly troubles the Commission is that France, by flouting community agreement on the excuse of a monetary crisis and the strains imposed by the strikes of last May, is establishing a dangerous precedent. France had already received a special dispensation to continue its credit subsidies on a gradually reduced scale beyond the agreed date of abolition, July 1, to the end of 1968—but she has continued them into this year without asking any further leave of the Market.

It is a bad example and illustrates how some countries permit national interests to override the limitations imposed on them by their membership of the Market. Some EFTA members accuse Britain somewhat similarly of going roughshod over the Free Trade Association's regulations. In the case of France its continuance of export subsidies affects countries outside the Market also and the USA has already responded by imposing countervailing duties on French products going to the USA.

By fortunate contrast, the international attitude is more promising. Twenty-seven member nations have already notified the International Monetary Fund that they accept proposed Special Drawing Rights or "paper gold" methods of stabilizing the western world's monetary system. They constitute just over 47 per cent of the total IMF voting power; before "paper gold" can come into force it must be accepted by 67 of the Fund's 111 member countries, with 80 per cent of the vote. None of the Common Market countries have yet accepted the plan and France is not expected to do so at all.

The Two-Tier System

The situation regarding the two-tier price system for gold, set up last March establishing the official price at 35 dollars an ounce and a free market in gold, has moved this month to a greater certitude. South Africa, one of the major gold producers, sought a guarantee at that time of a fixed common price of 35 dollars an ounce. The USA strongly opposed giving this pledge and has still not publicly or formally withdrawn its objection. But by the end of the year the USA was dropping hints that it would accept 35 dollars an ounce as the minimum price. A formal agreement, in which the USA is expected to join, will probably be reached in the early months of the Nixon administration. Meanwhile, the price of gold on the London free market has risen above 42 dollars an ounce for the first time in eight months.

On the even more crucial monetary front arguments still abound—mainly between academics—as to the worthwhileness of fixed foreign exchange rates and systems allowing wider fluctuation. Few are enthusiastic about holding a monetary conference but there is much talk about such strangely-named concepts as a "crawling peg" which would permit slow fluctuation.

The money men, as distinct from the economists and other "intellectuals", are confident of slow improvements this year on the basis of the present system of exchange rates and international support plans operated through the International Monetary Fund, a system which they consider has proved its reliability. They also expect more willing monetary co-operation between governments individually. There is need for more direct consultation between states with money problems. Such consultations would, bankers consider, eliminate the need of any more special systems such as the Special Drawing Rights to supplement world reserves or of free markets in gold.

If there is more direct communication between governments with monetary problems and more firmness by governments in resisting speculation or other pressures for changes in exchange rates Europe's bankers are convinced there will fairly soon be far fewer fluctuations in exchange quotations. If parities were allowed to change too easily there would be a breakdown in the exchange system because there would no longer be confidence in any currency.

The moving finger writes

THE KAMARAJ bandwagon may be moving ever so slowly, but it is moving nevertheless. From "Parkkalam" ("Let us see"), it has travelled, at the time of writing, to "Pesalam" ("Let us talk"). I fail to appreciate what all this fuss is about. Surely, in view of the vacancies in the cabinet, and now that Mr Kamaraj has been elected to the Lok Sabha, he should certainly be considered for one of them, particularly because of his standing in the ruling party and also because not only Tamilnadu, but the entire group of southern states is not at present represented in the central cabinet at a sufficiently high political level. (I am aware of the fact that Mr Govinda Menon from Kerala is a cabinet minister but it can hardly be contended that Mr Menon amounts to anything in the current politics of that state). What ought to be treated as a simple matter for a straight decision by the Prime Minister in consultation with Mr Kamaraj has somehow got blown up into a "To be or not to be" issue for Congress, if not national politics. I wonder what game Mr Nijalingappa thinks he is playing.

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It is a token of the temper of the times that pejorative epithets have kept pursuing Mr Lyndon Johnson to his very last day at the White House. Mr Arthur Krock of the 'New York Times', for instance, describes him as "the vainest of 11 presidents" he has known. No wonder, that this ex-president of the United States is so over-eager to leave the verdict on himself as man and president to history rather than to his contemporaries.

Some of us in this country, however, should not really need the aid of future historians to appreciate what the Johnson presidency has done for India. Through the years he was Chief Executive of the United States, Mr Johnson had always been concerned with what the resources of his country could do, or, how they might be employed to relieve the stresses and strains on our economy or help in its development. His billion-dollar food aid, which did so much to spare our people the grosser horrors of widespread famines during the years when the rains failed, was only the most spectacular expression of his continuous personal and institutional commitment to making American economic co-operation meaningful for our economy.

It was never in doubt that Mr Johnson sought sincerely to improve his government's political relations with ours, both as a desirable end in itself and as a means for extending the range and raising the quality of the American contribution to our progress. Among the prime ministers of India with whom he had to deal, Mr Johnson probably was at his relaxed and forthcoming best with the late Lal Bahadur Shastri. The nexus between Washington and New Delhi spelt out in the personal idiom of the man who was president of the United States and of the man who was prime minister of India, was never more mutually productive than in the brief period when Lal Bahadur Shastri was speaking for India to Lyndon Johnson acting for the United States. When Mrs Gandhi came on the scene, things clearly began to change. How the blame for this is to be apportioned would be an interesting line of inquiry into the politics of Indo-American relations in recent years. For the time being it could be recorded that, so far as Mr Johnson was concerned, he did not grudge time or the effort in trying to establish communications with a woman who, from the back of the stage of her nation's affairs, was abruptly summoned to take charge of them.

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There is some disappointment in Canada at the performance, or more accurately the lack of it, of its Prime Minister at the recent Commonwealth Conference in London. Mr Pierre Elliot Trudeau was making his debut at a high-level international conference and since Canada had always attached considerable significance to its role in the Commonwealth, there was keen interest in how Mr Trudeau would acquit himself. As for the Canadian Prime Minister himself, he apparently found no difficulty in London in living up to his reputation as one of the world's most eligible bachelors who knew how to enjoy the company of the opposite sex and knew also how to provide himself with it in both abundance and variety. This, according to his critics, was about all that he had to show for his visit to Britain's capital.

Indeed, according to reports appearing in the British press, Mr Trudeau had been for nearly all of the time a merely passive observer of the proceedings of the Commonwealth Prime Ministers' Conference and that even the one attempt he did want to make at active participation failed to come off. The story goes that the Canadian Prime Minister had prepared a speech on international affairs, but his advisers dissuaded him from delivering it since they found that it not only made no important point but was also vague to the extent of being unintelligible—which tempts me to suggest that Mr Trudeau, at least, was more fortunate in his advisers than our own Prime Minister was. In her entourage, there was apparently nobody bold enough to put it to her that it did not exactly help her or her government's credibility for her to assert racial equality and freedom from racial discrimination as the criteria of the Commonwealth, when it was clear for all to see that she had gone to London not so much for putting up a fight for these basic values, but merely to register her ceremonial presence on an international occasion to which some publicity could be expected

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The latest of the affluent nations to sense the stirrings of conscience about poverty in its midst seems to be Canada. As responsible and respected an authority as the Economic Council of Canada declares:

> "Poverty in Canada is real. The numbers are not in thousands, but in millions. There is more of it than our society can tolerate, more than our economy can afford and far more than existing measures and efforts can cope with. Its persistence, at a time when the bulk of the Canadian people enjoys one of the highest standards in the world, is a disgrace."

As surprising as the fact of poverty in Canada is the further fact that this poverty remains in spite of a vast national social welfare budget of more than $5 billion annually, which is the aggregate of public spending on federal, provincial and municipal programmes. Reviewing this welfare structure and the way it operates, the Economic Council has called for a better utilisation of resources and urged a review, clarification and updating of the objectives of existing social policies at all levels of government so that the extent to which these policies are really beamed at the people living in poverty can be determined.

Much of this evaluation strikingly resembles what is being thought and said in the United States where too there is a great deal of dissatisfaction with the quality of implementation of the "war on poverty" programme of the Johnson administration. It seems to me that, however good the intentions of governments are, the machinery of government is usually unequal to the task of equating performance with promise. There ought to be a moral here for our government, which has been painfully discovering for itself the truth of the dictum that to govern is to select.

V.B.

Trade Winds

S.T.C. TO IMPORT RAW MATERIALS

THE UNION Minister for Commerce, Mr Dinesh Singh, announced at the recent meeting of the Board of Trade that the government might ask the State Trading Corporation (STC) to take over the entire import trade in industrial raw materials. He added that he had asked the STC chairman to investigate whether the corporation had the capacity to undertake the job. The announcement was made when some members of the board pointed out that the world supplies of industrial raw materials were getting concentrated in the hands of some cartels and consortia and the effective bargaining with these suppliers could be possible only through centralised buying. The STC also would examine how certain types of imports having special problems could be dovetailed in this overall arrangement.

Another important announcement made by the Minister at the meeting was that some pig-iron would be diverted from exports to feed the export-oriented engineering industries which were starved of foundry grade pig-iron, now being exported on a large scale. He also stated that payments of dues to exporters by way of drawback or on account of any other assistance would be made at one central office.

IMPACT OF PL 480 FUNDS

An expert group set up by the Finance Ministry is understood to have come to the conclusion that PL 480 transactions could, in certain circumstances, have an inflationary effect on the monetary system. It has suggested ways to avoid such contingencies. The group examined the present system of recording the transactions arising out of PL 480 imports in the budget and has proposed some improvements which are intended to bring out their effect on money supply. It is also believed to have expressed the view that the government should give thought to the long-term aspect of the large holdings of PL 480 funds in this country of the order of Rs 2,500 crores or more. The group, headed by Dr A. M. Khusro of the Institute of Economic Growth, New Delhi, was set up by government last year.

PAPER IN THE PUBLIC SECTOR

The Paper Corporation of India, a public sector concern, is expected to be registered shortly. A sum of Rs 60 crores has been sanctioned for the manufacture of paper in the public sector during the fourth Plan period. The corporation may initially set up three units—(i) a new newsprint manufacturing unit; (ii) a writing paper and boards project; and (iii) a pulp factory. The decision on the location of these plants is expected to be taken soon after the incorporation of the company. Indications are that the project to produce writing paper and boards may be set up in the Dandakaranya area. The pulp manufacturing plant may be established in the Jammu and Kashmir state. In deciding the location of these units the industrially backward areas in the country where raw materials for the production of paper and boards are available in plenty, are proposed to be given preference.

MANUFACTURE OF T.V. SETS

The union government has approved the formation of two consortia in the small-scale sector for manufacturing television sets. Each of these consortia will be allowed to produce 5,000 sets annually. Two large-scale units, each with the capacity of 10,000 sets, have already been licensed to Telerad of Bombay and JK Electronics of Kanpur. All these manufacturing programmes will be on the model developed by the Institute of Technology, Pilani. The manufacture of some sets by the Pilani Institute itself is also envisaged.

ROURKELA STEELWORKS

The West German government has agreed to send in the near future a team of geologists and mining experts to advise and assist Hindustan Steel Ltd (HSL) in undertaking a detailed exploration of the mining areas from where raw material requirements of the Rourkela steelworks are being met. Apart from other difficulties, lack of uniformity in raw material is the biggest bottleneck in the way of Rourkela's development plan. Dr Ulrich Engelmann of the Federal German Ministry of Economic Affairs, who has had discussions at Rourkela with the Hindustan Steel chairman, Mr K. T. Chandy, a few days ago, observed here last week that the situation at Rourkela had greatly improved and that the expansion of the project to 1.8 million tonnes was near completion. He, however, could not indicate the precise date of commissioning of this expansion programme. Dr Engelmann further stated that although HSL had asked for 50 German experts to work at the steel mill with a view to imparting training to Indian technicians, he had favoured a smaller number because within the existing financial arrangements it would not be possible to keep them in the job after one year. Conceding that the plant should be managed by Indians as soon as possible, he felt that some German experts would have to stay longer than one year.

TRADE AGREEMENT WITH G.D.R.

The new long-term Trade and Payments Agreement between the German Democratic Republic (GDR) and our country for the period up to 1971 was signed in New Delhi on January 23. Within the last 10 years, the volume of foreign trade between the two countries has multiplied more than three times. During 1969 the quantum of trade both ways has been expected to be of the order of Rs 70 crores. The list of articles which would be imported from the GDR include muriate of potash, potassium chloride, organic and inorganic chemicals, printing machinery, machine tools, electric and electronic instruments and office equipment, machinery for the foodstuff industry, instruments and apparatuses for technical and scientific purposes, agricultural machinery, steel products, cinematographic films and photographic sensitized material. The goods to be exported from this country to GDR would include jute manufactures, cotton textiles, tobacco, deoiled cakes, mica, coffee and tea, tanned and semi-tanned hides, chemical products, as well as engineering items, such as handknitting machines, textile machinery, machine tools, flanges, cast iron, radiators, valves, electric equipment, surgical instruments and wire-ropes.

INDO-G.D.R. TRADE—1963-68

In million rupees (post devaluation value)

Year	Imports	Exports
1963	205	195
1964	176	194
1965	233	239
1966	274	242
1967	245	218
1968 (Preliminary figures)	222	245

CONFERENCE ON DAIRY DEVELOPMENT

Planning an integrated approach for dairy development in this country was the main theme of the Sixth Dairy Industry Conference which was held at Chandigarh from

January 28 to 31. It was inaugurated by Mr Annasaheb P. Shinde, union Minister of State for Food and Agriculture. The conference was attended by about 500 members and delegates representing all sections of the dairy industry in the public, co-operative and private sectors.

VANASPATI PRICES

Prices of vanaspati have been increased by 10 paise per kg in the north and south zones, and five paise per kg in the east zone with effect from January 25. There is no change in price in the west zone. The revised prices have been notified by the government under the Vegetable Oil Products Control Order, 1947, separate prices being fixed for sale by producers, wholesalers and retailers. The maximum retail prices of vanaspati in the different pack-sizes, and when sold loose, exclusive of local taxes, will be as under:—

(In rupees)

Zone	16.5 kg	4.0 kg	2.0 kg	Loose per kg
North	70.16	18.64	9.75	4.25
South	68.02	18.12	9.49	4.12
East	69.57	18.49	9.68	4.22
West	68.06	18.13	9.50	4.12

GAMMA GLOBULIN MANUFACTURE

Human placenta which is being discarded in this country as a waste product and the blood that is lost at the time of placenta separation are expected to be utilised shortly for the manufacture of gamma globulin and albumin at a factory to be set up at Faridabad, near Delhi, with financial and technical collaboration from M/s Technoexport, Bulgaria. The foundation stone of this venture was laid last week by the Prime Minister of Bulgaria, Mr Todor Zhivkov.

The project, sponsored by M/s Curewel (India) Ltd, in which the Indian participants are private entrepreneurs from Haryana state, will cost Rs 70 lakhs of which the foreign exchange component will be Rs 21 lakhs. The foreign exchange component will be made available by Bulgaria partly in the form of equity participation in the venture and partly in the form of a loan repayable over an 11-year period. Fifty per cent of the production will be exported with assistance from the Bulgarian collaborators. The equipment for the project is expected to start arriving by the middle of this year. The project will go into production early next year. The company hopes to supply this drug in the domestic market at about 20 per cent of its present price which is Rs 50 per ampule.

Gamma globulin is a drug highly effective against such diseases as measles, chickenpox, policyelities and hepatitis (jaundice). It has also been found to enhance the effectiveness of the anti-cancer vaccine which was recently produced by the Rand Laboratory in the United States. The Faridabad project will be the largest of its kind in the world because this country with its high birth rate, can supply a large number of placentas. One big hospital in Madras alone, it is said, can make available as many as 20,000 placentas per annum.

NEW MANAGEMENT FOR KHANDELWAL UDYOG

The management of Khandelwal Udyog Ltd has changed hands and the board of the company has been reconstituted to include Mr J. V. Patel, managing director of New Standard Engineering Co. Ltd, Mr L. R. Patel, Mr K. M. Diwanji, Mr Pranlal Patel and Mr B. J. Shah. The company's managing agents, Khandelwal Industries Private Ltd, have tendered the resignation of their office. Dr A. Ramaswami Mudaliar, Mr K. Sadagopan and Mr K. L. Panjabi continue to be on the board, while the other directors have resigned. Dr Mudaliar continues to be the chairman of the company. Mr J. V. Patel and his associates have bought the entire shareholdings of Khandelwals amounting to nearly 40 per cent of the equity capital. The company's equity capital has been reduced from Rs 40 lakhs to about Rs 28 lakhs following the forfeiture of shares for non-payment of call monies in time. The amount of calls unpaid at the end of 1967 amounted to Rs 6.42 lakhs. The new management of the company proposes to diversify and expand the company's activities.

OFFSHORE DRILLING RIG

A drill ship unit of the latest design is proposed to be constructed in this country at the Mazagaon dock with approximately 60 per cent indigenous content by the Offshore Company. The president of the Offshore Company stated recently that together with Larsen & Toubro Ltd, a survey had been made of the available sources of supply of equipment. The Offshore Company has its own design facilities to manufacture a deep drilling rig of considerable flexibility, seaworthiness, self-sufficiency, suitability and economy. The 'Discoverer' drill ship has been proposed to be manufactured after intensive study by the experts of Indian oceanographic and meteorological data. The proposal that has been submitted to the government contains the guarantee for every phase of the rig's existence till the personnel from this country are prepared to take over maintenance and operational control. Personnel from this country would be trained at 'Discoverer' rigs located in other parts of the world so that by the time the drill ship was ready in this country skilled operators would be available. Offshore Company is also prepared to offer any type of offshore drilling device suited to the particular marine environment because it has supplied diverse types of offshore rigs in many parts of the world.

Mr R.E.O. CAREY

Mr R. E. O. Carey, Managing Director of Goodyear India Limited, has been appointed Executive Vice-President of the Indo-American Chamber of Commerce. The Chamber is an organisation of Indian and American business interests formed last year to promote the development of commerce and industrial collaboration between India and the United States.

Company Affairs

ASSOCIATED CEMENT

MR N. A. Palkhivala, new Chairman of the Associated Cement Companies Ltd, in his statement to the shareholders, has pleaded for the removal of controls on the price and distribution of cement. He has suggested that cement price should be reviewed whenever warranted or there should be automatic rise in the price to compensate for unavoidable increases in costs. Mr Palkhivala has stated that a surplus cement capacity has developed in the country, particularly in the south. The all-India production of cement in 1968 was 11.7 million tonnes and was expected to go up to 16 million tonnes by 1970. He, therefore, felt that the surplus situation would continue in an accentuated form in coming years.

Mr Palkhivala was critical of the inordinate delay on the part of the authorities in granting increase in retention price of cement. He added that manufacturing costs of cement had gone up by Rs 17 per tonne since January 1966. The escalation adjustments recommended by the Tariff Commission had been denied to the industry and three years had passed since the last price revision. This had adversely affected the profits of the ACC and the entire dividend for 1967-68 had to be paid out of reserves.

Mr Palkhivala was of the opinion that the proposal to raise the capacity of the cement industry to 23 million tonnes during the fourth Plan was extravagant. He thought that the capacity of 19.4 million tonnes, which could be achieved by the expansions already taken up by the industry, would be sufficient.

The chairman pointed out that the company's sale went up from 4,471,000 tonnes to 4,561,000 tonnes during the year 1967-68. The company, however, was caught between soaring costs and a static retention price which was becoming more and more inadequate as the months went by. The reduction in profits would have been more severe but for the all-out efforts by the company to improve the efficiency of operations, he added. Although the equity dividend has been maintained, Mr Palkhivala felt that he would not be able to do the same this year in the absence of a satisfactory increase in the price of cement.

UNITED BANK OF INDIA

United Bank of India Ltd has made a net profit of Rs 25.73 lakhs for 1968 against Rs 26 lakhs for 1967, after providing Rs 32.43 lakhs for bonus and for taxation. The directors have decided to maintain the dividend at 7.5 per cent which will absorb Rs 20.20 lakhs. A sum of Rs 5.50 lakhs is allocated to reserve funds, raising them to Rs 133.50 lakhs from Rs 128 lakhs in 1967. Deposits have increased to about Rs 144 crores by Rs 14 crores.

J. K. SYNTHETICS

J.K. Synthetics Ltd proposes to issue 40,000 (9.5 per cent) cumulative redeemable 'B' preference shares of Rs 100 each at par for public subscription some time in March. The existing shareholders are entitled to apply for these shares. The public issue will be underwritten. The company has an authorised capital of Rs 5 crores (Rs 1 crore in preference shares of Rs 100 each and Rs 4 crores in equity shares of Rs 10 each). Its paid-up capital is Rs 2.25 crores, comprising equity shares of Rs 2 crores and 9.5 per cent cumulative redeemable 'A' preference shares of Rs 25 lakhs. The proceeds of the proposed issue will be utilised for financing partly its acrylic fibre project to be set up at Kota. It has received an industrial licence for manufacturing 4,000 tonnes of acrylic fibre per annum. Necessary land has been acquired adjacent to its nylon plant. Technical know-how will be received from Dr J. Loebring of West Germany. The basic raw material for acrylic fibre is acrylonitrile. It is in the form of liquid and will have to be imported for some time. The company anticipates no difficulty in getting the required import licences as priority industry. The project will help save foreign exchange and meet defence requirements. The capital cost of the project is estimated at Rs 5.20 crores, which will be met by the issue of capital (Rs 40 lakhs), loan from the Government of Rajasthan (Rs 50 lakhs), deferred payments (Rs 261.50 lakhs) and retained earnings (Rs 168.50 lakhs).

BHOR INDUSTRIES

Bhor Industries Pvt. Ltd, have built and supplied machinery and provided technical know-how for a new leather cloth manufacturing enterprise, Leathercloth Company Ltd, in Colombo under an agreement with W.D. Carolis Ltd, Ceylon. This is the first Indo-Ceylonese venture of its kind in plastics industry. Bhor has financial participation in the form of shares in the Ceylonese company.

ASSOCIATED BATTERY

The Managing Director of Associated Battery Makers (Eastern) Ltd, in his statement has stated that the construction of the second factory at Chinchwad near Poona is nearing completion and it is expected that the first finished batteries will be on the market by April. The expansion of the hard rubber container manufacture in the Shamnagar factory is on schedule and more containers are being supplied to small-scale battery manufacturers. Reasonable progress has also been made to put up additional capacity of train lighting cells. The company is also exploring ways and means of diversifying into allied products. In the domestic market the demand for the company's products continues to grow and steps are being taken to meet this demand. In the export market the company has gained a strong foothold in some general currency markets and it has received repeat orders from the Soviet Union for Rs 41 lakhs.

RALLIS INDIA

The Chairman of Rallis India Ltd, revealed in his annual statement to the shareholders that the company's sales in the first four months of the current year have risen by 12.5 per cent to Rs 12.15 crores. Although the profit margins are under severe pressure, he hoped that the company will be able to maintain its profit through its diversified activity if the current trend continues for the rest of the year. Of the two new projects of the company, Searle India is now in operation, and the construction of the ossein and gelatine factories, being set up by Protein Products of India at Ootacamund, has started. This is a public company being promoted in collaboration with Rousselot Kuhlmann. Underwriting arrangements have been completed and it is hoped to float the issue shortly. The company's engineering division expected to make a steadily increasingly contribution to the profit following the steps taken to increase production and improve the margin of the fan unit at Mulund. The new products being manufactured by the pharmaceutical division should augment the profit from the current year onward. The chemical factory of Searle India Ltd, will take a couple of years to turn the corner. Boehringer-Knoll, in which Rallis has a 48 per cent holding, has shown better sales this year. The fertiliser and pesticides division was able to increase its turnover but at the cost of a reduction in the profit margin.

TRACTOR ENGINEERS LTD.

Mr D. R. Lammers, Vice-president of Caterpillar Tractor Co. of the USA, formally inaugurated recently the factory of Tractor Engineers Ltd, and the new facilities of the Caterpillar dealership of Larsen and Toubro Ltd. A joint Caterpillar-Larsen and Toubro venture, Tractor Engineers Ltd, has set

up a factory for the manufacture of under-carriages for tractors at Powai in Bombay. The Rs 1.10 crore factory will have an annual production capacity of about Rs 2 crores. The turnover this year would be about Rs 1.20 crores. Announcing the details of the new project, Mr Holck Larsen, Chairman of Larsen and Toubro Ltd, revealed that Tractor Engineers Ltd. had sought the government's permission for the manufacture of 400 crawler tractors annually.

STATE BANK OF INDIA

The State Bank of India has reported higher net profit during 1968. The directors have proposed to maintain the final equity dividend of Rs 13 per share. Together with the interim dividend of Rs 10 per share already paid, the total dividend for the year will be Rs 23 per share and will absorb Rs 129.38 lakhs, the same as in the previous year. The bank has earned a net profit of Rs 505.76 lakhs during 1968 compared to Rs 443.01 lakhs in the previous year, before providing for bonus to staff. Even after the provision for bonus to staff of Rs 230 lakhs, the directors have transferred a sum of Rs 102 lakhs to reserve fund, Rs 9.37 lakhs to pension funds, Rs 21.50 lakhs to staff welfare fund and Rs 8 lakhs to staff co-operative housing fund. The amount carried forward is Rs 11.01 lakhs against Rs 5.49 lakhs brought in.

CENTRAL BANK

The Central Bank of India Ltd has maintained the final equity dividend of Rs 2.60 per share for the year ended December 31, 1968. With an interim dividend of Rs 2.40 per share already paid, the total dividend is Rs 5 per share of Rs 25 each (20 per cent) for the year. The dividend is, however, payable on 1,916,000 shares against 1,911,000 shares and the total dividend amount will be slightly higher at Rs 95.81 lakhs. The net profit of the bank subject to audit and after providing for taxation and bonus to staff, is slightly lower at Rs 118.73 lakhs in 1968 compared to Rs 119.73 lakhs in the previous year. After bringing in Rs 37,891, the amount available for disposal is Rs 119.10 lakhs. Interim dividends had absorbed Rs 45.99 lakhs. The directors have transferred a sum of Rs 23.75 lakhs to reserve fund and Rs 49 lakhs to special reserve. The final dividends will be paid from the special reserve.

The bank's deposits crossed the Rs 400 crore mark and increased during the year from Rs 395 crores to Rs 435 crores or by about 10 per cent. Advances increased from Rs 278 crores to Rs 288 crores or by 3.6 per cent.

PUNJAB NATIONAL BANK

The Punjab National Bank Ltd, during the year ended December 31, 1968, has shown a net profit of Rs 146.16 lakhs, after providing for taxes and payment to the employees' gratuity and superannuation fund trusts and making necessary provisions. The amount brought forward from the previous year's account is Rs 59,000. Out of the total profit of Rs 146.75 lakhs, a sum of Rs 24 lakhs has already been utilised for the payment of interim dividend at Rs 1.20 per share, subject to tax, leaving a balance of Rs 122.75 lakhs for further appropriation. The directors have recommended a final dividend of Re 1 per share, subject to tax, making a total of 22 per cent. This will absorb Rs 20 lakhs. A sum of Rs 30 lakhs has been transferred to the reserve fund. Allocation to charity and donation account is Rs 2 lakhs. The balance of Rs 70.75 lakhs has been carried forward subject to the payment of bonus to the staff. The bank's deposits have risen from Rs 314 crores to Rs 355 crores. The bank opened during the year 36 new offices, increasing the total number of offices to 544.

BANK OF RAJASTHAN

The directors of the Bank of Rajasthan Ltd, have reported that the deposits of the bank have registered an increase of 11 per cent during the year 1968 over the figures of last year and exceeded Rs 13.90 crores as on December 31, 1969.

STATE BANK OF MYSORE

The working of the State Bank of Mysore for the year ended December 31, 1968, revealed an all round progress. The deposits and other accounts of the bank were Rs 44.96 crores at the end of the year and were better by Rs 3.26 crores registering an increase of 7.82 per cent as compared with Rs 41.70 crores on December 31, 1967. The advances were higher by Rs 4.99 crores and stood at Rs 32.38 crores as against Rs 27.39 crores at the end of December 31, 1967. The working for the year has resulted in a net profit of Rs 23.49 lakhs subject to audit, as against Rs 23.16 lakhs for the year 1967, which together with the sum of Rs 0.21 lakh carried forward from last year amounts to Rs 23.70 lakhs available for appropriation. The board of directors have resolved to set aside Rs 5 lakhs towards reserve fund, Rs 8.35 lakhs as bonus to staff and Rs 10 lakhs as dividend at the rate of 10 per cent.

STATE BANK OF BIKANER AND JAIPUR

The State Bank of Bikaner and Jaipur has made a net profit of Rs 15.99 lakhs for the year ended December 31, 1968, as against Rs 13.92 lakhs last year which together with a sum of Rs 28,000 being the amount brought forward, amounts to Rs 16.27 lakhs. The board of directors has decided to set aside Rs 3.20 lakhs towards reserve fund and Rs 7.09 lakhs as bonus to staff. They have proposed the payment of Rs 5.60 lakhs as dividend at the rate of 7 per cent.

VYSYA BANK

The Vysya Bank Ltd has made a record progress during the year 1968. The deposits of the bank which stood at Rs 5.62 crores at the end of 1967, have increased to Rs 6.72 crores on December 31, 1968, showing an increase of 20 per cent. The net profit of the bank for the year 1968, after providing for taxation and other usual and necessary provisions, has increased from Rs 1.55 lakhs to Rs 2.60 lakhs. The total resources of the bank which stood at Rs 6.5 crores, have exceeded Rs 8 crores. Including the sum of Rs 0.03 lakh brought forward, the balance available for appropriation is Rs 2.63 lakhs. A sum of Rs 1.25 lakhs has been transferred to reserve fund, increasing it to Rs 7.75 lakhs, and a sum of Rs 0.25 lakh has been transferred to reserve for staff gratuity fund, leaving a balance of Rs 1.13 lakhs for payment of dividend and for carry forward. During the year the bank opened a branch at Raichur and as at the end of 1968, the bank had 31 offices. During the year 1969, the bank proposes to open four more branches. Of these, three branches are being opened shortly, one each at Hanur (rural centre) in Kollegal Taluk, Bangalore-Kempagowda Road in the Golden Jubilee Building of the Mysore Chamber of Commerce, and at Sadasivpet (rural centre) near Hyderabad in Andhra Pradesh.

MEDICAL EQUIPMENT EXHIBITION

The Medicor Works of Budapest organised a medical exhibition in the Indian Medical Association Building, Indraprastha Marg, New Delhi, from January 17 to 27, 1969. The Medicor is a large manufacturer and exporter of medical and electro-medical equipment as well as X-ray apparatus. It has four factories employing more than 5,000 workers. It exports 80 per cent of its total production and has connections with more than 35 countries. The products of the Medicor Works, especially deep-therapy equipment, are well-known and appreciated by different hospitals and medical colleges in this country. The exhibits include universal traumatological and operating table, universal spirograph type PT-400, two-channel electro-myograph apparatus, eight channel electro-encephalograph, the TEX-60 X-ray apparatus and the "Picoscale". The full range of electro-medical and X-ray apparatus of Medicor Works is represented by Siemens India

Ltd which will provide all technical assistance as well as service possibilities for the above apparatus.

MURPHY INDIA

The new plant of Murphy India Ltd for the mass production of 300,000 radio receiving sets a year was inaugurated by Rank Organization chairman, John Davis, at Thana, near Bombay. The UK firm holds a substantial interest in Murphy India. Mr Davis indicated that the demand for radio sets in this country was growing at a striking rate. Between 1965 and 1968, the combined sales of Murphy radios and Bush radios produced by another associate company of Mulchandani Electrical and Radio Industries Ltd increased from 154,000 to 685,000, showing an increase of 345 per cent. Last year the two companies had produced well over 25 per cent of the total domestic output of radios. He said his associate companies in the radio field had established high reputation for both product and service. He hoped his associate companies would before long be permitted to contribute their experience and special skills towards the development of high quality television in this country.

GODREJ

A special function in Bombay presided over by Maharashtra Governor P. V. Cherian was held as part of the celebrations of Gandhi centenary year which also is the centenary of the founder of Godrej Co., Mr A. B. Godrej. He began in 1897 manufacturing locks on a systematic line experimenting and devising improvements on imported ones. Later, he turned to the manufacture of safes and safe-deposit vaults. Mr Godrej, then manufactured a range of steel equipment for the office including "Storewel'. Godrej enterprise has now been manufacturing M-12 typewriter with German collaboration which ranks with the best. This enterprise claims to have brought down prices against fierce competition.

PREMIER RUBBER AND CABLE INDUSTRIES

Premier Rubber and Cable Industries, manufacturers of bicycle tyres and tubes, plan to produce automobile tyres and tubes soon. The company is seeking foreign collaboration with a Holland or UK firm. It has a licensed capacity of two million bicycle tyres and tubes each year. Besides, it has also a licence for producing rubber insulated cables, PVC insulated cables, VB hose pipes and buffer springs. The firm is likely to be converted into a public limited company. It has a block capital of Rs 40 lakhs. The expansion programme has cost Rs 28 lakhs. The plant is located at Domvibli (near Bombay) and is running to full capacity. The company's sales in 1968 were Rs 1.52 crores. Its production is expected to reach Rs 3 crores in 1969

BASF

BASF India Limited hoped to commission its new styropor plant at Thana-Belapur road soon, possibly before the close of the current financial year or immediately thereafter. Disclosing this information at the annual general meeting of the company recently, the chairman of the company added that when this plant would be commissioned the company would have completed the process of concentrating all its manufacturing activities in one factory. This integrated factory offered scope for further expansion and diversification resulting in cost advantages for existing units. The company was also studying in association with its foreign collaborators proposals of new manufacturing lines. In the current year the company has been able to complete the erection of basytan plant which has since started commercial production of tanning agents. Since then the government had suspended the open general licence which should give the company a definite advantage in pushing its sales through and the company has been given sufficient import licences to cover its requirements of raw materials.

KIRLOSKAR CUMMINS

Kirloskar Cummins Ltd has reported higher sales of Rs 3.42 crores during the year ended September 30, 1968, compared to Rs 2.96 crores in the previous year. The working has, however, resulted in a lower gross profit of Rs 53.34 lakhs against Rs 57.74 lakhs. After providing Rs 18.79 lakhs for depreciation and Rs 4.10 lakhs for development rebate reserve, the net profit works out substantially higher at Rs 30.45 lakhs. After writing back provisions for earlier years amounting to Rs 16.96 lakhs, the amount available for disposal is Rs 47.41 lakhs. After adjusting the brought-in loss of Rs 27.65 lakhs and providing Rs 5.62 lakhs for depreciation in earlier years and Rs 11,778 for doubtful account, the balance of Rs 14.02 lakhs has been transferred to general reserve. The directors have not declared any dividend for the year.

CALCUTTA ELECTRIC

The Calcutta Electric Supply Corporation Limited has shown no improvement in high tension industrial sales for the half-year ended September 30, 1968. However, there was some increase in low tension sales resulting in an overall increase of 2 per cent over sales in the corresponding period of 1967. The board of directors was satisfied that the profits justified the payment of an interim dividend on the ordinary shares at 4½ per cent, free of tax, for the year ended March 31, 1969. This will be paid both in the United Kingdom and in this country on February 15 to those stock-holders registered as on January 29. For 1967-68, the corporation paid a total dividend of 9 per cent.

UNIT PRICE RAISED

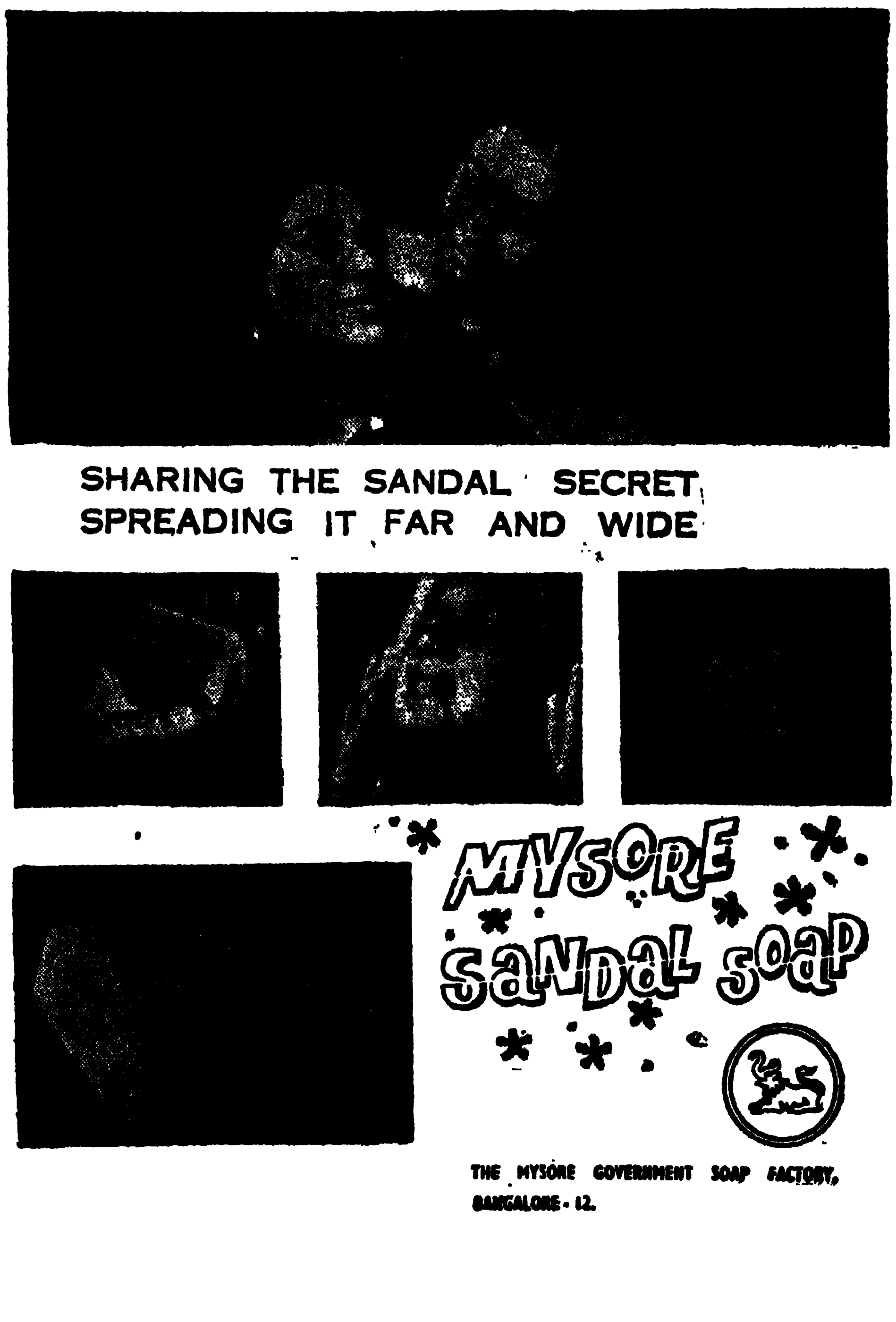
The Unit Trust of India has raised the sale and repurchase prices valid for January 24, by five paise per unit. The sale and repurchase prices of units will, therefore, be Rs 10.55 and Rs 10.05 per unit, respectively.

"So if we cut the size further, the next casualty would be 'I promise to pay'."

CORRECTION

The Anatomy of Poverty

In our issue dated January 24, 1969, on page 142, col. 1, line 12 from top, for the existing line, please read the following: "ing the economics of a backward region in a backard economy."


SHARING THE SANDAL SECRET
SPREADING IT FAR AND WIDE
MYSORE
SANDAL SOAP
THE MYSORE GOVERNMENT SOAP FACTORY,
BANGALORE-12.

COMPANY MEETING

THE ASSOCIATED CEMENT COMPANIES LTD

Summary of Chairman's Statement

The following is a summary of the statement issued to shareholders by Shri N. A. Palkhivala, Chairman, The Associated Cement Companies Limited, on the Company's working for the year ended 31st July 1968. The Annual General Meeting of the Company will be held on Wednesday, January 29, 1969, at 4 p.m. at the Patkar Hall, Nathibai Thackersey Road, Fort, Bombay.

Mr Dharamsey M. Khatau has been a Director of your Company since its incorporation in 1936 and was its Chairman from 1949 to December 1968. Under his wise stewardship and able guidance, the Company has made enormous strides. If the Company has today a proven record of growth and good management and a reputation for quality and integrity, which make the Company the leader in the cement industry in a sense which is not confined to its productive capacity and turnover, it is in no small measure due to Mr Dharamsey Khatau's vision and counsel. I am sure you would like me to express our deep gratitude to Mr Khatau for all that he has done for your Company, and wish him a long and relaxed evening of life.

I am taking over his office at a time which is not the most propitious. The figure of net profits after the necessary appropriations is the lowest since the inception of the Company. The retention prices permitted by the Government are wholly unremunerative: and at the same time the industry faces the grim prospect of excess production, under-utilisation of capacity, and transport bottlenecks. It is not the cement industry alone which has a difficult future ahead. The old Chinese curse—"May you live in interesting times!"—seems to brood over the Indian political and economic scene.

PSYCHOLOGICAL INFRA-STRUCTURE

Even as there is a tide in the affairs of men, there is a tide in the affairs of nations, which, taken at the flood, can lead on to fortune. At this moment such a tide awaits our country. An impressive infra-structure has been built up in the last 15 years in irrigation facilities, generation of electric power, improvement in transport facilities and growing ranks of engineers. The agricultural revolution has brought comparative prosperity to large sections of the population.

What remains to be done is the building up of a psychological infra-structure corresponding to the physical infrastructure,— I mean the creation of an atmosphere where industry can look forward with confidence to the unfolding future. This confidence can never be inspired unless the Government is able and willing to make quick and firm decisions based on an approach to economic problems which is imaginative and not ideological, and which is marked by a breadth of vision that scorns political gimmicks and resolutely pursues pragmatic policies.

CASE FOR INCREASE IN RETENTION PRICES

I should be failing in my duty if I did not give expression to the deep sense of frustration and injustice which pervades the entire cement industry at the incomprehensible inaction of the Government on the issue of increase in retention prices. Manufacturing costs have increased since January 1966 by no less than Rs 17 per tonne due to factors over which the industry has no control and some of which are the result of the Government's own action. Freight on coal and stores has increased; so have coal prices, royalties, electricity duty, wages and dearness allowance. The escalation adjustments recommended by the Tariff Commission have been denied to the industry. As early as April 1967 the cement industry pressed its claim for a suitable increase in price, but it was not till August 1968 that the Government agreed to have the cost structure examined. The cost figures duly audited are eloquent enough to convince any impartial mind that the industry has the soundest possible case for an increase in price. Three years have elapsed since the last price revision and almost two years have elapsed since the unanswerable case of the industry was presented to the Government for an increase.

Justice requires that a price increase should be announced forthwith. Further, from January 1968 the Government has reverted to the three-tier retention price system which has worked unfairly against your Company. To redress this injustice, the increase in price should be with retrospective effect from the 1st January 1968, at least in respect of the lower two of the three-tier retention prices. The large fund accumulated in the Cement Regulation Account lying with the Government may be utilised for this purpose.

PRICE CONTROL

There is no justification for continuation of control on the price of cement. The market has changed from scarcity to surplus, from the effortless sellers' market to the competitive buyers' market. The rural population, with its comparative prosperity and freedom from strangulating taxation, bids fair to become the major consumer in the years ahead. The total productive capacity in the country is at present 14.5 million tonnes. It is expected to rise to 19.4 million tonnes by January 1971. The corresponding figures for your Company are respectively 5.7 million tonnes and 6.8 million tonnes. The all-India production in 1968 was 11.7 million tonnes, and the present demand is being fully met. Indeed a surplus situation has already developed, particularly in the South; and at a number of factories, including some of your Company, stocks of clinker and cement have accumulated. With the rapid increase in capacity during the last two years and the additional capacities which are due to come into operation, the surplus situation will continue in an accentuated form during 1969 and 1970 when the industry will be probably producing 13.8 million tonnes and 16 million tonnes respectively.

In such a situation where the production exceeds the demand, price control can only cause distortions without achieving any public good. Free competition, unfettered by restrictions on price or distribution, is a tremendous power-house which can generate growth with stability in the cement industry. But this power-house has been put out of commission. The Government has continued controls which obstruct expansion, deflect enterprise and constrict growth. The controls on the cement industry at present are typical examples of restrictions imposed by our Government which, in the telling words of our Constitution, are neither reasonable nor in the public interest.

The Government should overhaul its pricing policies and mechanism without delay so that there is always a timely review of prices whenever warranted or else there is automatic escalation in the price to compensate for unavoidable increases in costs. Had such a realistic policy been followed hitherto, the working of this premier Cement Company which accounts

for nearly 40% of the country's production would not have been reduced to the sad plight reflected in the accounts for 1967-68.

CONTROL ON DISTRIBUTION

It is unwise to continue the existing control on the distribution of cement when the supply is in excess of the demand. In a situation of surplus, there should be no doubt that every region of the country will be supplied, because the alternative would be reduced offtake and further building up of stocks. The fear that in the event of decontrol on distribution the distant consumer would have to pay more for his cement could be dispelled by continuing the present system of a fixed selling price at all f.o.r. destination stations throughout the country. This may temporarily put up the freight bill f certain producers, but with the expansion of demand in all regions during the years ahead, the position will eventually right itself; and the disincentive to establishing more capacity where production is already surplus and the incentive for establishing capacity where there is a shortage will lead to a better location of new factories.

CONSTRUCTION OF CONCRETE ROADS

I would strongly urge the Government to take up the construction of concrete roads which, though initially more expensive to construct, pay for themselves by their longevity and very economical maintenance costs. For many years past there was hardly any cement available for road construction. During the next few years when cement will be surplus, the opportunity should not be lost of providing the country with first-class concrete roads capable of carrying heavy traffic for decades without renewal. In order to finance the construction of concrete roads over and above what can be allocated from the Central and State Budgets, I would urge the Government to consider setting up a Road Financing Corporation which would be allocated funds by the Centre and the States. Such a Corporation could assist State and Municipal bodies in procuring cement on deferred payment basis.

EXPORTS

Secondly, the Government should take this opportunity to increase exports of cement substantially. The subsidy of 25% of the f.o.b. value presently granted through the State Trading Corporation plus Rs 6/- per tonne provided by the Cement Controller still leaves a substantial gap in relation to the internal selling price of cement which the exporting producer has to bear in order to sell at competitive prices in the Middle East and other markets. If exports are to be stepped up from the existing three lakh tonnes to over one million tonnes, the Government will have to increase their subsidy substantially.

TARGET IN THE FOURTH PLAN

"Experience", said Sainte-Beuve, "is like the pole-star; it only guides a man in the evening, and rises when he is going to rest". Apparently, for some people this star never rises,—early or late. New Delhi has learnt little from the experience of the earlier Plans. The very realistic target of cement manufacturing capacity set by the First Plan was 5.3 million tonnes and the actual achievement of 5 million tonnes was close to the target. The Second Plan had the target of 16 million tonne capacity, which was later scaled down to 11 million tonnes, while the capacity achieved was only 9.3 million tonnes. The Third Plan envisaged a capacity of 15 million tonnes, while in fact the capacity did not rise above 12 million tonnes. Certain Government agencies want to set the capacity target for cement at 23 million tonnes for the Fourth Plan—an extravagant figure. We believe that the capacity of 19.4 million tonnes, which is going to be achieved by the expansions already undertaken by the industry, will be more than sufficient. The increase in capacity from 14.5 million tonnes to 19.4 million tonnes, which represents a rise of 33.79% in the short space of two to three years is, on any reckoning, a phenomenal increase.

UNENDING TAX PROCEEDINGS

I should like to say a word about the burden of taxation on a priority industry like cement. For the assessment year 1960-61 the effective rate of tax for your Company was 44.35%. For the assessment year 1968-69 it had risen to 51.12%. The relief granted in respect of new factories on the ground that they were newly established undertakings, has involved protracted litigation for every year that the relief has been claimed. The first assessment year for which relief was claimed was 1959-60. For that year your Company succeeded before the Tribunal, but the Commissioner's reference is pending in the High Court. For the subsequent three years where again your Company succeeded before the Appellate Assistant Commissioner, the Department's appeals are pending before the Tribunal. For the assessment years 1963-64 and 1964-65 the Company's appeals are pending before the Appellate Assistant Commissioner. The assessments for the subsequent years have not been made. In the meanwhile, the shareholders' assessments get completed and become final. I believe that 90% of those shareholders who are entitled to tax relief in respect of dividends paid out of profits of our new factories, will never get it, because of the wrong attitude taken up by the Department in the first instance and the unending proceeding which go on in respect of every year's assessment.

The complexity of our fiscal laws is truly beyond belief. Even worse is the spirit, thin as a filament, in which the tax laws are administered. The assessing Officers are given more and more powers and allowed less and less initiative and independent judgment. The environment and set-up are highly conducive to the general tendency to record conclusions adverse to the assessee and let the law take its course—its painfully prolonged and tiring course. The prick of official conscience is assuaged by the knowledge that the wronged assessee has the right of appeal and reference. The administration of the

tax laws is guided by the letter which killeth and not by the spirit which vivifies. The desire is not to see that a fair assessment is made but to ensure that the maximum tax is levied. The case of your Company is a typical example of how an honest taxpayer has to embark on annual litigations, lasting on an average for more than a decade, before a simple point can be settled as to how much of its profits from expansion schemes is exempt from tax.

WORKING RESULTS

Production of all types of cement manufactured by your Company increased by 1.28 lakh tonnes over the previous year and sales increased from 44.71 lakh tonnes to 45.61 lakh tonnes.

In spite of increased production and sales, it is regrettable that the year under review has been a very disappointing one for your Company. The main reason for this unhappy performance is the unprecedented rise since 1966 in the various cost elements, referred to above, over which your Company had no control.

Further factors that have contributed to the increase in operational cost are the larger provision made for depreciation during the year due to new units going into production, and higher interest charges paid on increased borrowings for accelerated expansion.

Caught in a vice between soaring costs and a static retention price which is becoming more and more inadequate as the months go by, the reduction in your Company's profits would have been more severe but for the continued and all-out efforts to improve the efficiency of operations in all spheres.

DIVIDEND

In order to avoid hardship to the shareholders, the great majority of whom are small shareholders who rely on their dividend income in these hard days, it has been decided to maintain the dividend of 12% by drawing the entire amount from reserves. It need hardly be added that it would not be possible nor prudent to continue the policy of maintaining our dividend unless a satisfactory price increase is granted and profits improve.

CEMENT WAGE BOARD

The Government has changed the date of implementation of the recommendations of the Wage Board from 1st December 1967 to 13th February 1968. The recommendations are to remain in force for a period of five years. Your Company has decided to implement the recommendations as modified by the Government, and I hope that we can look forward to a period of industrial peace and harmony in the years ahead.

MANAGING AGENTS

Cement Agencies Limited will cease to be your Managing Agents on 1st April 1970. Thus will end, unfortunately, an era of efficient management which has lasted for more than a third of a century. Your Directors are giving careful consideration to the need for a new set-up to ensure that the efficiency of management is maintained; and proposals will be put before you in due course.

In closing, I should like to express, on your behalf and on behalf of the Management, appreciation of the fine work put in, and the spirit of co-operation evinced by, your Company's far-flung staff at the Works and the Collieries, the offices and other establishments.

BOOKS BRIEFLY

A Comprehensive Review of Industries

Commerce Annual Number, 1968: Edited by Mr Vadilal Dagli; Published by R. M. Shah on behalf of Commerce (1935) Ltd, Bombay-20; Pp. 360 plus XII; Price Rs 10.

The Commerce Annual Number, 1968, has taken the state of industry as its central theme. The editor has, in the first article, tried to foresee the likely industrial policy of this country in the 'seventies in the light of the experience in recent years. He is of the view that a change in the attitude of our bureaucrats "in a decisive and demonstrable manner" is a must; but for this change it will be futile to hope for speedy growth in industry in the next decade.

The industrial development of this country since 1947 has been analysed in a survey by Mr Narotham Shah, head of the Research Bureau of Commerce. Mr R. Venkataraman, Member, Planning Commission, has assessed the outlook for industry during the fourth five-year Plan period and has come to the conclusion that "an annual increase of 8-10 per cent in industrial production would not be too optimistic". Mr V. T. Dehejia, Chairman of the State Bank of India, has discussed certain issues in industrial finance. According to him, the government has taken a number of steps in order to revive the capital market. He has listed in this regard the discontinuance of annuity deposit scheme, abolition of separate surcharges on earned and unearned incomes, reduction of surtax on companies from 35 to 25 per cent, abolition of dividend tax and exemption of first Rs 500 of the dividend income from income-tax. And now it is up to the private sector to accept the challenge, says Mr Dehejia. On the other hand, Mr G. M. Laud, Editor of the 'Financial Express', believes that the hope of a robust recovery in the capital market will have to be deferred at least till the beginning of the fifth Plan.

There are interesting articles on various other aspects of industrial growth by S. M. Dahanukar, K. S. Basu, Raj K. Nigam, Rohit Dave, P. Y. Chinchankar, K. L. Nanjappa, J. H. Doshi and a few other contributors. The problems of the major industries such as steel, aluminium, machine tools, electronics, chemicals, petrochemicals, pharmaceuticals, plastics, cement, coal, oil, electricity, shipping, automobiles, textiles, jute, sugar, paper, vanaspati and some other industries have been discussed by competent contributors. A separate section covering about 42 pages presents industrial profiles of states and a special blue supplement provides valuable data on the state of Indian industries. As usual the annual also contains reviews of different markets in the country. A bibliography of six pages is a useful appendix. Taking into account the sizable reading and reference material given in this annual number, it is moderately priced at Rs 10.

A RICH COLLECTION

Capital's Annual Survey of Economic and Public Affairs: Acting Editor Dr B. B. Ghosh; Pp. 166; Price Rs 5.

As in the past, Capital's Annual Number is a collection of a large number—29 to be precise—of interesting articles relating to various facets of our economy as well as of world problems. The very first article by William M. Clarke discusses the international currency crisis. Mr Clarke has ended his article with an optimistic note which indeed was inspired by Mr McNamara's speech at the World Bank meeting in Washington four months ago. Mr Geoffrey Tyson has analysed the flow of foreign aid to the developing countries and the problems of repayment of loans. Mr Tyson is of the view that even the communist countries may not be in a position to liberalise assistance to developing countries. Mr George Barrell has discussed the role of SDR's in resolving the world monetary crisis while Mr M. R. Masani has stressed the need for accelerating economic development of this country consistent with political stability. Mr Ashok Mitra, Chairman, Agricultural Prices Commission, has laid down the criteria for fixing agricultural prices for raising farm output. There are other provocative articles by such luminaries as C. N. Vakil, N. Das, Bhabatosh Datta, P. S. Lokanathan, M. R. Meher, R. R. Shah, A. K. Basak and a few others.

A GOOD START

Margin, Volume 1, Number 1, October 1968; Copies available from the Administrative Officer, National Council of Applied Economic Research, Parisila Bhawan, 11 Indraprastha Estate, New Delhi; Pp. 32; Price single copy Rs 3.

The National Council of Applied Economic Research has brought out a quarterly—Margin—whose first issue was released in the last quarter of 1968. Within the compass of 32 pages, five provocative articles have been presented along with reviews of two books. The Director-General of the NCAER, Mr Bhoothalingam, in an article entitled "Of Development Programmes" has discussed the problems associated with the implementation of developmental projects in this country. The crux of the problem, according to him, is "to ensure that all the relevant assumptions on which the choice was based do come out to be true to the maximum extent possible". He has recommended "imaginative foresight and careful planning" in the implementation of projects. Other articles contributed by members of the NCAER staff make interesting reading. "The Nature and Function of Location Studies" by Mr T. R. Rao looks formidable because of the inclusion of higher mathematics; as model building is a fashion today, perhaps no highbrow journal can do without it. Let us hope that the younger generation of economists which has been trained in the sciences of mathematics and statistics along with economics, will be able to profit from such learned exercises.

FOR BETTER MANAGEMENT

Indian Administrative and Management Review, Vol. 1, No. 1, October-December, 1968; Edited by Satish C. Seth and published by Indian Administration and Management Review, A-3, Pandara Road, New Delhi-11; Pp. 88; Price Rs 6.

It is a fact that we do not have in this country many good journals dealing with the problems of administration and management. The quarterly under review meets a long felt need. The first issue is impressive in the sense that it presents within the compass of 88 pages, inspiring articles concerning administration and management which developing countries such as ours have to face. While reviewing the problems of administration in this country, the editor has opined that "the real need is to install instruments of training and testing. We must have only such people as administrators, who have received training for their jobs and who know what to do and how to do it efficiently". The contributors include eminent researchers such as Dr S. Chandrasekhar, union Minister of State for Health and Family Planning, Dr Dwigut Waldo, the Albert Schweitzer Professor in Humanities (Syracuse), Prof. Howard Banmgastel, Kansas University (USA) and a number of other university professors.

FROM KABUL TO DJAKARTA

Far Eastern Economic Review, 1969 Year Book: Edited by Derik Davies and Published by Far Eastern Economic Review, 401-6, Marina House, P.O. Box 160, Hong Kong; Pp. 324.

This tenth year book of our contemporary from Hong Kong

presents an informative survey of happenings in the sprawling region covered by the triangle Tokyo-Kabul-Djakarta. A provocative review of the major events in this area in 1968 is given by the editor. He has described the publication of the book 'Asian Drama' by Gunnar Myrdal as a single, most significant event of last year. Prof. Myrdal's book, according to the editor, "constitutes complete condemnation of the techniques and achievements of Asian planning". The country-wise survey is preceded by industry-wise commentary of such major industries as oils and fats, tea, rubber, mining, shipping, textile and jute. Both the political and economic changes in 1968 are discussed in an interesting manner in the case of each country of the region though India, Japan and China have been dealt with in a comprehensive manner. This annual number is a useful reference book for the study of economic and political changes in the Far East.

Readers' Roundtable

FAILURE ON RUBBER

Sir,- In his article on page 1006 of your issue dated November 29, 1968, "Sagittarius" has rightly deplored that political considerations rather than economic issues have dominated the rubber situation. Our main criticism of the recommendations of the Tariff Commission was to this effect. But some of "Sagittarius'" arguments are based on wrong premises. His enthusiasm for exaggerating the interest of the rubber consumers has resulted in his being unfair to the producers.

Rubber prices were controlled from 1943 to December 1963 except for a short spell in 1946-47. For the major part of these two decades the statutory price fixed on cost plus basis as a result of the Tariff Commission enquiry was very much less than the international price, and the beneficiaries of this were the manufacturers. Immediately after the statutory minimum price control of Rs 425 per quintal of raw rubber was reimposed, rubber prices slumped to Rs 350 per quintal as there was a glut in the rubber market with excessive imports allowed during 1966-67. The inclusion of an element in the price for depreciation of field assets was conceded much earlier and we have criticised strongly the Commission's recommendations on the subsidy scheme.

It is wrong to say that producers want a price which was ruling during 1966. The growers' demand is for a fair economic price which would take care of increasing labour costs and allow a reasonable return on capital and create adequate resources for ploughing back to develop and improve yields.

The costed units taken by the Tariff Commission related to the year 1965-66 which did not take into account the increased wages and dearness allowance accepted by the industry in December 1966.

This association has all along advocated the introduction of a mechanism by which imports should be so regulated that neither the rubber consumers nor the growers exploited the situation arising out of a glut or a scarcity of supplies.

Does it stand for any economic reasoning to argue that there is a good case for fixing differential prices? How can different prices be charged for one and the same product? Is efficiency to be penalised by a lower return?

The writer complains that the monopolistic group of growers are disregarding the interest of consumers. He did not however complain when consumers of rubber forced the growers to sell below the statutory prices.

The buyable prices for tyres were always higher than what the manufacturers' list showed. In 1965-66 when the price of rubber was considerably above what it is today, the manufacturers were selling their tyres at cheaper prices and the consumers were able to buy their tyres at the list prices. This only goes to show that the change in the price of raw rubber was not the only cause for changes in the prices of tyres and rubber products. When the prices declined, there was no corresponding reduction in the price of tyres.

There is a calculated exaggeration in presenting the view that the interests of the rubber consumers are ignored.

S. V. NARAYANAN,
Information Officer,
United Planters' Association of
Southern India

Coonoor.

LABOUR AND COMPUTORS

Sir,—The Computor Society of India at its recent meeting has made a controversial statement that 'computors do not affect labour'. Such statements are issued every now and then by the advocates of computors, but in practice automation is suggested and even adopted (except at places of research) only to reduce the clerical staff. At least the fact that automation reduces further scope for employment is admitted by all sections openly. Retrenchment does result, but to cloud it, to avoid objections from labour, the surplus is absorbed in other jobs, whether productive or not, to establish that "automation replaces machines not men". All this has no sense. This only strengthens labour's prejudice against the use of automation and computors under all circumstances.

The best method of convincing the labour is to bring home well known, admitted and time tested facts and figures about technological developments and how they help in rendering better service to mankind.

Let us start with electricity. Fifty years back it was a terror to many and a luxury for a few. Today a well lighted home is welcome. Life has become more comfortable and enjoyable with facilities such as an electric fan and a radio. Did electricity result in unemployment? No. Take the example of typewriter—another technological development. Who can deny its benefits?.

Computor is another example of the technological development. It improves efficiency and renders cost reduction, i.e., we get more things for the same money or same things for lesser money.

It is the long-term benefit of technological developments and computors which must be focussed and projected with the background of admitted facts. This is the only method to convince our masses and not the prestige publicity campaigns the LIC has launched.

Visakhapatnam M. L. JAIN

RECORDS AND STATISTICS

Industrial Capacity in Major Industries

IN A note prepared for the twentieth meeting of the Central Advisory Council of Industries held in the capital early this month, the Department of Industrial Development in the Ministry of Industrial Development and Company Affairs had presented an overall picture of the performance of the major industries. The following tables give the existing capacity in main engineering and non-engineering industries and the expansion in capacity recorded since the commencement of the third Plan.

PROGRESS OF INDUSTRIAL DEVELOPMENT FOR MAJOR INDUSTRIES
(Position as on April 1, 1968)

Name of the industry	Unit	Existing capacity as on April 1, 1961	Third Plan target	Existing installed capacity & capacity covered by foreign exchange	Existing installed capacity as on April 1, 1968	Additional capacity covered by foreign exchange	Additional capacity not covered by foreign exchange	Total licensed capacity incl. existing capacity
	2	3	4	5 (6+7)	6	7	8	9 (5+8)
			ENGINEERING INDUSTRIES					
Industries looked after by the Deptt. of Industrial Development								
Steel castings	'000 tonnes	38.12	200.00*	303.83	184.83	119.00	83.06	386.89
Steel forgings	,,	42.90	200.00**	182.52	97.40	85.12	95.18	277.70
Cast iron castings	Lakh tonnes	6.40	12.00†	6.78	6.24††	0.54	0.08	6.86‡
Malleable/iron casting	'000 tonnes	18.29	100.00	69.87	23.55	46.32	51.80	121.67
Cast iron pipes	,,	278.40	800.00	665.14	469.54	195.60	96.00	761.14
Steel pipes & tubes	,,	300.38	450.00	800.08	500.63	299.40	166.00	966.08
Steel wire ropes	,,	5.64	10.00	37.44	28.44	9.00	NIL	37.44
Structurals	,,	394.65	900.00	575.34	460.24	115.10	79.40	654.74‡
Cranes	,,	9.32	60.00	38.16	24.20	13.96	26.25	64.41
Sugar mill machinery	Rs crores	11.60	16.00	16.42	15.12	1.30	NIL	16.42
Cement machinery	,,	1.10	4.50	23.00	23.00	NIL	NIL	23.00
Paper mill machinery	,,	3.70	8.50	6.09	6.05	0.04	NIL	6.09
Dairy machinery	Rs crores	1.78	2.50	2.57	2.67	NIL	1.78	4.35
Tungsten carbide	Tonnes	9.60	48.00	337.00	127.00	210.00	NIL	337.00
Machine tools (excl furnaces)	Rs crores	8.00	30.00‡‡	N.A.	58.50	N.A.	N.A.	N.A.
Road rollers	Nos.	450	800	1,980	1,800	180	120	2,100
Boilers (industrial and power)	Rs crores	3.70	29.00‡‡	13.42	11.11	2.31	1.46	14.88
Railway wagons	Nos.	26,000	33.500	33,734	32,734	1,000	1,000	34,734
Passenger cars	'000 nos.	20.20	30.00	30.00	30.00	NIL	NIL	30.00
Commercial vehicles	,,	28.00	60.00	66.90	58.40	8.50	NIL	66.90
Jeeps & station wagons	,,	5.50	10.00	25.00	12.00	13.00	NIL	25.00
Motor cycles, scooters & mopeds	,,	23.00	50.00	75.50	75.50	NIL	NIL	75 50
Ball & roller bearings	Mill. nos.	1.70	11.00§	24.09	12.14	11.95	2.58	26.67
Power driven pumps	'000 nos.	128.00	184.00	N.A.	188.48	N.A.	N.A.	N.A.
Diesel engines (stationary)	,,	47.70	72.00	N.A.	74.06	N.A.	N.A.	N.A.
Agricultural tractors	'000 nos.	Nil	12.00	34.00	11.00	23.00	NIL	34.00
Electric transformers (33 KV & below)	Lakh KVA	14.00	40.00	68.89	57.27	11.62	1.20	70.09‡
Electric motors (300 H.P. and below)	Lakh H.P.	11.30	30.00	30.54	22.48	8.06	2 16	32.70
Welding electrodes	Mill. R. Ft.	462.00	1080.00	1794.00	1314.00	480.00	NIL	1,794 00
Air compressors	Nos.	2300	8,000	7,531	6,001	540	NIL	7,531
				(5,800 assessed by the Dev. council)				
Typewriters	'000 Nos.	45.00	100.00	86.00	74.00	12.00	NIL	86.00
Bicycles	Lakh nos.	14.14	22.00	21.75	21.75	NIL	NIL	21.75
Sewing machines	'000 Nos.	133.70	700.00	453.00	432.00	21.00	NIL	453.00
Domestic refrigerators	,,	13.60	50.00	52.60	37.80	14.80	NIL	52 60
Commercial refrigerators	,,	1.61	6.00	1.61	1.61	NIL	NIL	1.61
Room air-conditioners	,,	20.05	50 00	28.28	28.28	NIL	NIL	28.28
Water coolers	,,	5.33	20.00	5.33	5.33	NIL	NIL	5.33
Coated abrasives	'000 reams	182.00	400.00	272 00	272.00	NIL	70.00	342.00
Grinding wheels	'000 tonnes	3.13	4.50	5.96	4.94	1.02	0.83	6.79
Clocks	'000 nos.	Nil	200.00	160.00	112.00	48.00	NIL	160.00
Time pieces	,,	60.00	1,200.00	1000.00	510.00	490.00	200.00	1200.00
Watches	,,	Nil	1,200.00	670.00	670.00	NIL	600.00	1270.00

PROGRESS OF INDUSTRIAL DEVELOPMENT FOR MAJOR INDUSTRIES (Contd.)
(Position as on April 1, 1968)

Name of the industry	Unit	Existing capacity as on April 1, 1961	Third Plan target	Existing installed capacity & capacity covered by foreign exchange	Existing installed capacity as on April 1, 1968	Additional capacity covered by foreign exchange	Additional capacity not covered by foreign exchange	Total licensed capacity incl. existing capacity
	2	3	4	5 (6+7)	6	7	8	9 (5+8)
Electric cables & wires								
ACSR	'000 tonnes	19.30	55.00 (68.00)	100.73	95.23	5.50	NIL	100.73
VIR & PVC	Mill. core/yds.	463.20	800.00	1053.30	943.80	109.50	26.00	1079.80
Paper insulated	KM '000 tonnes	1414	7,200	10,004	8,090	1,914	NIL	10,004
Bare copper conductors	"	17.80	18.70	19.00	19.00	NIL	NIL	19.00
Winding wires:								
(a) Enamelled & copper covered	"	4.50	20.00	19.69	15.19	4.50	0.20	19.89
(b) Paper cotton covered	"	2.19	12.00	15.26	9.86	5.40	0.30	15.56
Electric fans	Lakh nos.	17.40	28.00	15.68	15.16	0.52	NIL	15.68
House service metres:								
Single phase	"	3.84	23.00	16.70	14.60	2.10	NIL	16.70
Poly phase	"	Nil	3.81	3.46	2.98	0.48	NIL	3.46
Electric Lamps:								
GIS & others	Mill. nos.	46.68	90.00	106.09	65.59	40.50	20.00	126.09
Fluorescent tubes	"	1.20	7.00	15.00	8.20	6.80	0.03	15.03
Miniature lamps	"	26.90	55.00	49.50	24.80	24.70	NIL	49.50
Dry batteries	"	224.50	400.00	601.00	439.00	162.00	50.00	651.00
Storage batteries	'000 nos.	380.90	900.00	858.60	781.80	76.80	NIL	858.60
Radio receivers	"	279.00	900.00	834.80	798.80	36.00	903.50	1738.30
NON-ENGINEERING INDUSTRIES								
Calcium carbide	'000 tonnes	23.23	61.00	66.00	66.00	NIL	NIL	66.00
Sodium hydrosulphite and derivatives	"	2.30	12.20	11.46	7.20	4.26	3.00	14.46
Hydrogen peroxide	"	1.50	9.65	3.60	3.00	0.60	NIL	3.60
Potassium chlorate	"	1.50	9.25	7.52	5.72	1.80	NIL	7.52
Sodium bicarbonate	"	12.96	20.32	17.28	17.28	NIL	10.80	28.08
Heavy chemical (primary organic)								
Phthalic anhydride	"	NIL	15.00	12.30	NIL	12.30	NIL	12.30
Phenol by-products & synthetic	"	NIL	16.00	16.60	NIL	16.60	NIL	16.60
Methanol	"	NIL	30.00	33.00	33.00	NIL	NIL	33.00
Acetic acid	"	3.60	31.00	18.85	11.53	7.32	25.00	23.85
Rubber chemicals	"	NIL	3.00	4.65	4.65	NIL	NIL	4.65
Carbon black	"	NIL	30.00	31.25	31.25	NIL	22.30	53.55
Industrial explosives								
Blasting explosives	"	8.00	20.00 E (45.00)	22.50	15.00	7.50	20.00	12.50
Safety fuses	Mill. coils	5.00	25.00 (45.00)	25.10	13.10	12.00	5.20	30.30
Detonators	Mill. nos.	NIL	80.00 (216.00)	168.00	NIL	168.00	15.00	183.00
Liquid oxygen explosives	Tonnes	2,000	9,000	2,000	2,000	NIL	NIL	2,000
Paints & varnishes (Organised sector)	'000 tonnes	90.00	160.00 E.E	106.00	106.00	NIL	NIL	106.00
Starch	"	148.60	158.20	158.20	151.00	7.20	NIL	158.20
Liquid glucose	"	13.02	15.90	23.25	23.25	NIL	NIL	23.25
Dextrose powder	"	5.70	10.91	13.11	12.61	0.50	NIL	13.11
Automobile tyres	Lakh nos.	16.07	45.00 (51.40)	38.38	32.23	6.15	3.28	41.66
Bicycle tyres	"	157.90	386.00 (250.00 Revised estimate)	317.86	205.56	112.30	69.00	386.86
Paper & paper board	'000 tonnes	418.00	820.00		730.00	Industry has been delicensed		
Newsprint	"	30.00	150.00		30.00	—do—		
Refractories	Lakh tonnes	9.60	20.00	13.18	13.18	NIL	NIL	13.18
Cement	Mill. tonnes	9.40	15.02	18.52	13.78	4.78	Industry has been delicensed	
Insulators (HT & LT)	'000 tonnes	14.00	30.00	30.94	26.06	4.88	6.28	37.22
Glass & glassware								
Glass bottles & vials excluding penicillin vials)	'000 tonnes	181.46	290.00	N.A.	252.00	N.A.	N.A.	N.A.
Table & pressedware	"	74.38	90.00		93.94	The industry has been delicensed.		
Lampware	"	43.36	44.00		51.08	—do—		

PROGRESS OF INDUSTRIAL DEVELOPMENT FOR MAJOR INDUSTRIES (Contd.)
(Position as on April 1, 1968)

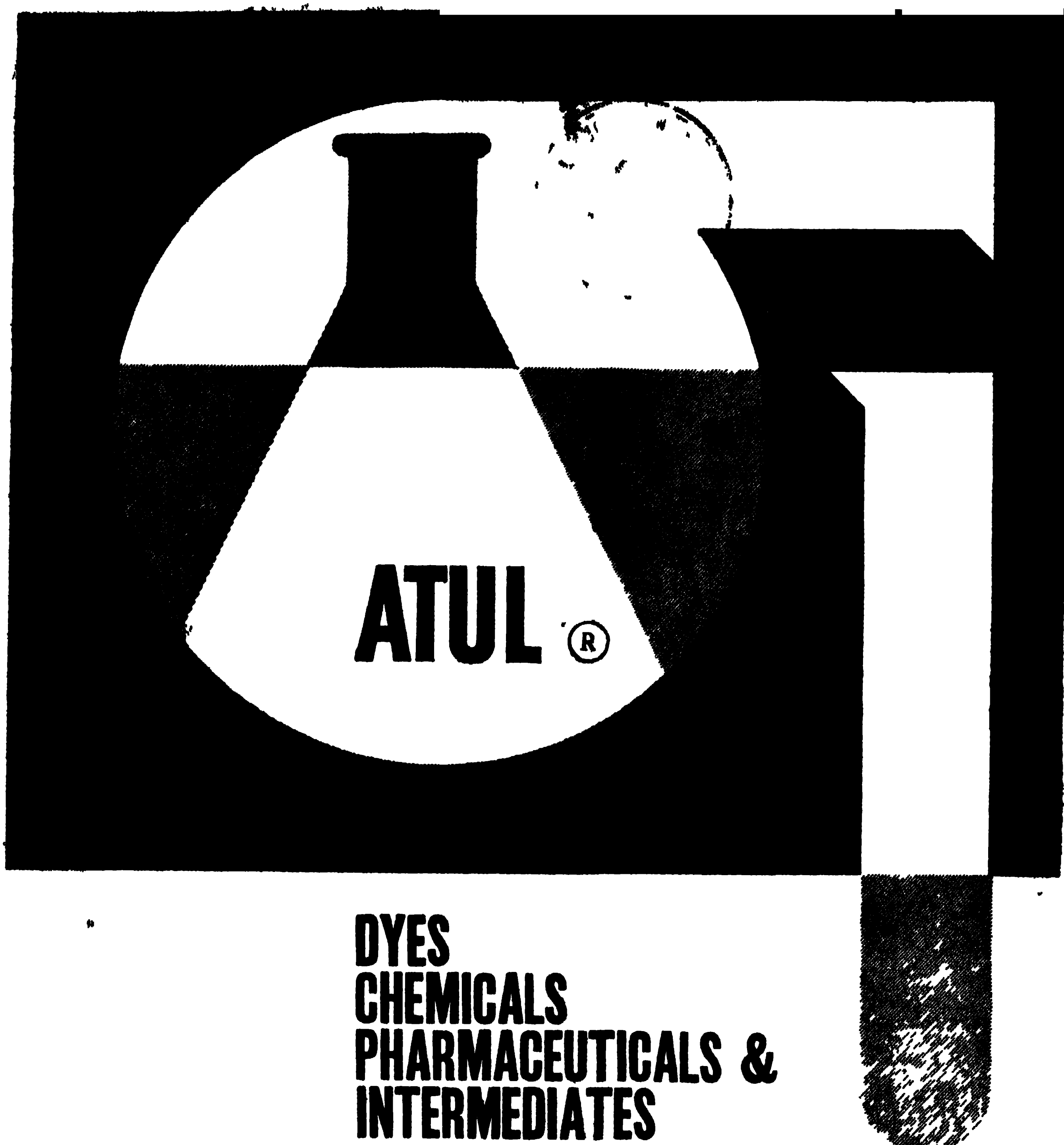
Name of the industry	Unit	Existing capacity as on April 1, 1961	Third Plan target	Existing installed capacity & capacity covered by foreign exchange	Existing installed capacity as on April 1, 1968	Additional capacity covered by foreign exchange	Additional capacity not covered by foreign exchange	Total licensed capacity incl. existing capacity
1	2	3	4	5 (6+7)	6	7	8	9 (5+8)
Laboratory glassware	"	6.80	22.00		12.09		—do—	
Flat Glass:								
Sheet glass	"	61.80	125.00		127.34		—do—	
Wired & figured & rolled glass	"	—	—		41.75		—do—	
Glass shells	"	2.86	5.00		6.12		—do—	
Vacuum flask	"	3.48	4.00		3.72		—do—	
Glass mineral wool & allied products	"	6.70	—		12.07		—do—	
Glass fibre & products thereof	"	NIL	—		1.13		—do—	
Industrial gases:								
Oxygen gas	Mill cu. metres	23.60	43.80	70.65	57.80	12.85	NIL	70.65
Acetylene gas	"	4.30	7.10	13.00	10.80	2.20	NIL	13.00
Carbon dioxide	'000 tonnes	13.00	21.20	18.96	17.96	1.00	5.40	24.36
Nitrous oxide	Mill. litres	100.00	109.00	300.00	300.00	NIL	NIL	300.00
Cellulose films	Mill. lbs	81.00	12.00	12.00	12.00	NIL	4.00	16.00
Pulp:								
Rayon grade pulp	'000 tonnes	NIL	100.00		60.60	Industry has been delicensed		
Bamboo based	"	NIL	—		54.00		—do—	
Cotton linter based	"	NIL	—		6.60		—do—	
Paper grade pulp	"	NIL	—		NIL		—do—	
Matches	Mill. gross boxes of 50 sticks	N.A.	54.36	53.98	53.98$	NIL	NIL	53.98
Plywood	Mill. sq. metres	13.06	15.66		36.65	Industry has been delicensed		
Hard board	'000 tonnes	9.75	27.00 to 35.00	34.50	34.50	NIL	44.40	78.90
Chip board	"	6.00	150.00	128.38	44.90	83.48	110.50	238.88
Vegetable Oils:								
Solvent extraction of oil cakes	Lakh tonnes	6.77	23.50		19.00	Industry has been delicensed		
Cotton seed oil	"	2.00	8.00	9.59	9.59	NIL	NIL	9.59
Biscuits (organised sector)	Tonnes	31,044	30,528	36,150	36,150	NIL	NIL	36,150
Confectionery (organised sector)	"	51,840	51,840	40,188	40,188	NIL	NIL	40,188
Industries looked after by the Ministry of Petroleum & Chemicals								
Nitrogenous fertilizers (in terms of Nitrogen)	'000 tonnes	238.36	1000.00	2240.74	861.74	1379.00	1309.00	3549.74
Phosphatic fertilizers (in terms of P2O5)	"	52.44	500.00	518.60	393.40	125.20	908.09	1426.69
Sulphuric acid	"	536.00	1750.00	2001.35	1828.85	172.50	1197.76	3199.11
Soda ash	"	273.00	700.00	692.80	398.80	294.00	390.00	1082.80
Caustic soda	"	126.00	406.40	392.24	260.00	132.24	39.00	431.24
Synthetic rubber	"	NIL	50.00	30.00	30.00	NIL	NIL	30.00
Pharmaceutical drugs and pesticides								
Penicillin	M.M.U.	50.00	120.00	242.00	242.00	NIL	NIL	242.00
Streptomycin	Tonnes	NIL	150.00	225.00	140.00	85.00	NIL	225.00
Tetracyclin	"	10.00	50.00	148.50	28.50	120.00	NIL	148.50
Sulpha drugs	"	366	1,000	896	896	NIL	NIL	896
PAS	"	148	400	482	402	80	NIL	482
Anti-dysentry drugs	Tonnes	77.90	75.00	77.90	77.90	NIL	NIL	77.90
INH	"	33.10	100.00	196.40	71.40	125.00	NIL	196.40
Phyto chemicals	"	NIL	76.40	76.40	NIL	76.40	NIL	76.40
BHC	"	2,000	15,000	23,650	11,800	11,850	15,000	38,650
DDT	"	2,800	2,800	2,800	2,800	NIL	4,400	7,200
Dyestuffs	"	7,613	11,364	13,577	12,397	1,180	125	13,702
Plastics:	"	19,262	85,000	160,060	83,378	76,682	22,700	182,760
PF moulding powder	"	3,000	6,700	3,600	1,810	1,790	NIL	3,600
UF moulding powder	"	1,062	4,450	4,300	2,500	1,800	NIL	4,300
PVC resins & composition	"	3,600	13,400	75,600	27,600	48,000	16,400	92,000
Polystyrene	"	5,400	18,400	26,500	10,000	16,500	NIL	26,500
Polyolefines	"	6,280	26,800	37,500	37,500	NIL	NIL	37,500
Cellulose acetate	"	NIL	6,700	6,000	NIL	6,000	3,300	9,300
Polyesters	"	NIL	1,340	2,820	600	2,220	NIL	2,820

PROGRESS OF INDUSTRIAL DEVELOPMENT FOR MAJOR INDUSTRIES (Contd.)
(Position as on April 1, 1968)

Name of the industry	Unit	Existing capacity as on April 1, 1961	Third Plan target	Existing installed capacity & capacity covered by foreign exchange	Existing installed capacity as on April 1, 1968	Additional capacity covered by foreign exchange	Additional capacity not covered by foreign exchange	Total licensed capacity incl. existing capacity
1	2	3	4	5 (6+7)	6	7	8	9 (5+8)
Polyvinyl acetate	,,	NIL	4,450	2,400	2,400	NIL	3,000	5,400
Others	,,	NIL	7,760	1,340	968	372	NIL	1,340
Soap (organic sector)	'000 tonnes	242.74	255.00	242.03	241.31	0.72	NIL	242.03
Synthetic detergents	,,	7.20	20.00	34.38	33.18	1.20	NIL	34.38
Power & industrial alcohol	Mill. litres	181.60	327.00	—	310.00	Industry has been delicensed		
Industries looked after by deptt. of Mines & Metals			... *					
Aluminium	'000 tonnes	22.11	87.50 (110.00)	165.00	115.00	50.00	150.00	315.00
Copper	,,	7.32	22.00 (39.40)	16.10	9.60	6.50	31.00	47.10
Lead	,,	6.00	8.50 (11.00)	11.00	6.00	5.00	NIL	11.00
Zinc	,,	NIL	15.00 (30.00)	38.00	38.00	NIL	NIL	38.00
Industries looked after by Deptt. of Iron and Steel								
Alloy steel	'000 tons	NIL	200.00 (415.00)	319.40	112.40	207.00	534.80	854.20
Pig iron	Lakh tons	0.30	15.00 (20.00)	9.50	0.80	8.70	11.88	21.38@
Ferro-silicon	'000 tons	7.00	40.00 (50.00)	34.20	27.20	7.00	5.40	39.60
Ferro-chrome	,,	NIL	20.00 (35.00)	20.00	NIL	20.00	NIL	20.00
Ferro-manganese	,,	157.80	220.00	154.80	154.80	NIL	70.60	265.40
Ferro-molybdenum	Tons	NIL	1,000	NIL	NIL	NIL	100	100
Ferro vanadium	,,	NIL	500	NIL	NIL	NIL	50	50
Steel wire	'000 tons	123.18	400.00 (500.00)	275.51	205.36	70.15	13.20	288.71$$
Tinplates	,,	70.00	350.00	210.00	140.00	70.00	90.00	300.00@@
Industries looked after by the Ministry of Commerce/Petroleum & Chemicals								
Rayon	Mill. kgs	47.00	99.00	96.50	78.50	18.00	4.00	100.50
Filament	,,	25.00	57.00	50.50	37.50	13.00	2.00	52.50
Viscose	,,	23.00	40.00	38.50	35.50	3.00	3,00	40.00
Acetate	,,	2.00	12.00	12.00	2.00	10.00	—	12.00
Cupramonium	,,	NIL	5.00	NIL	NIL	NIL	NIL	NIL
Tyre cord	,,	NIL	9.00	20.00	15.00	5.00	2.00	22.00
Staple fibre	,,	22.00	33.00	26,00	26.00	NIL	NIL	26.00
Viscose	,,	22.00	30.00	26.00	26.00	NIL	NIL	26.00
Acetate	,,	NIL	3.00	NIL	NIL	NIL	NIL	NIL
Synthetic fibre	,,	NIL	6.00	22.54	9.10	13.40	NIL	22.54
Filament	,,	NIL	5.00	11.90	4.60	7.30	NIL	11.90
Nylon	,,	NIL	5.00	11.90	4.60	7.30	NIL	11.90
Staple fibre	,,	NIL	1.00	8.50	4.50	4.00	NIL	8.50
Polyester	,,	NIL	--	4.50	4.50	NIL	NIL	4.50
Acrylic	,,	NIL	—	4.00	NIL	4.00	NIL	4.00
Tyre cord	,,	NIL	—	2.10	NIL	2.10	NIL.	2.10
Nylon	,,	NIL	—	2.10	NIL	2.10	NIL	2.10

* Including 83,200 tonnes reserved for public sector.
** Including 76,700 tonnes reserved for public sector.
† Including 1.58 lakh tonnes reserved for public sector.
†† Including 2.13 lakh tonnes for captive use.
‡ Excluding capacity for public sector.
‡‡ Including Rs 16 crores reserved for public sector.
§ Including two million numbers reserved for public sector.
§§ Including capacity for above 33 kVa transformers & excluding capacity of Heavy Electricals, Bhopal.
££ Includes 30,000 tons for small-scale sector.
$ For six mechanised units only.
£ Including target of 9,000 tons for liquid oxygen explosives.
$$ Excluding 150,000 tons of small-scale sector and 86,740 tons sanctioned under Iron and Steel Control Order.
@ Excluding capacity set up in the integrated steel works both in the public and private sector and including capacity approved but not licensed.
@@ Excluding public sector.

Notes: (1) Figures in brackets under column 4 indicate revised targets. 2. All the figures are provisional.
(3) Glass and glassware industry has been delicensed except holloware which includes bottles and penicillin vials.



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To Tell a Tall Tale

WILL THE Commerce Minister, or his advisers, official or otherwise ever be able to resist the temptation to oversell the products of their imagination or enterprise? We wonder.

Even before he had properly settled down in his present office, Mr Dinesh Singh made a bid for newspaper headlines by proposing compulsory exports as a sure solution for our foreign exchange problems. That was only the beginning of much kite-flying and even more fireworks, the highlight of which was the effort by the Commerce Ministry to present UNCTAD-II as a famous victory.

Only a few weeks ago, Mr Dinesh Singh sought to dramatise the advent of the new year by indicating an intention on the part of the government to centralise the import of raw materials by making it a monopoly of the two trading corporations in the state sector. The latest we have heard from him is an astrological prediction that a south-east Asian common market is on its way.

An occasion for this bold declaration was provided for Mr Dinesh Singh when he met local journalists on his return from a foreign tour which had taken him first to Ceylon and then to Europe. In Colombo, the Commerce Minister represented our country at the first meeting of the Indo-Ceylon Economic Co-operation Committee. It was the proceedings of this meeting which, according to Mr Dinesh Singh, had stimulated him to think and talk in terms of the emergence of a south-east Asian common market. Not many, we believe, would care to share his optimism without much more evidence than is now available to justify it.

This is not to make light of the significance of the Ceylon conference. The setting up of the Indo-Ceylon Economic Co-operation Committee was, indeed, a concrete step towards the kind of regional co-operation so badly needed in this part of the world. When the Prime Minister of Ceylon visited New Delhi some time back he made it known very clearly that he was prepared to meet the Government of India more than half way in sponsoring trade or broader economic relations between his country and ours. Our government for its part showed that it was not less keen than Colombo in working for shared benefits of commerce and economic development. This general attitude has had the advantage of being reinforced by the specific urgency of the common need of Ceylon and India to frame in consultation with each other a policy for the orderly marketing of tea in international trade

There is, of course, no minimising of the complexity of the problems of evolving a common policy for tea, and it is, therefore, very encouraging indeed that Mr Dinesh Singh was able to report that, thanks to his recent discussions in Colombo, a stage had been reached when the proposed Indo-Ceylon corporation for the joint marketing of tea could begin to function. This by itself is a considerable achievement for the Indo-Ceylon co-operative machinery, which was set up so recently, and it is, therefore, all the more welcome that the Commerce Minister was also able to mention, even if only in a general way, other possibilities of collaboration which, as Mr Dinesh Singh indicated, were fruitfully discussed in Colombo.

So far so good. But where we find some difficulty in following Mr Dinesh Singh's argument is the stage at which he decides to take a great leap forward and, having leaped, lands with the conclusion that, as a result of his visit to Colombo, the countries of the ECAFE region have merely to walk round the corner to find themselves com-

fortably cushioned on the lap of a south-east Asian common market.

It is, of course, too late in the day for us to protest against sloppy thinking or loose talk about a common market in the ECAFE region. The slogan is so replete with cheap political attractions that ministers will not be ministers if they refrain from claiming it as their discovery or invention on the slightest provocation. But it is too much to expect us to remain silent when the Commerce Minister of our country chooses to mix up the serious business of bilateral trade and other economic relations with such fanciful exercises. We do not want to waste the reader's time by recounting the elementary reasons why a south-east Asian common market is not a realistic project. We would rather devote the space, time and energy available to us here to emphasise the practical wisdom of our government seeking the means of regional co-operation among the less spectacular but more rewarding instruments of bilateral agreements on trade and economic collaboration.

A number of useful initiatives may in fact be credited to New Delhi in the matter of exploring possibilities of economic co-operation with countries in east and south-east Asia. We had referred earlier to the case of Ceylon. Malaysia, Singapore and Thailand are some of the other countries with whom our government is now engaged in forging links of mutual advantage. There has also been some attempt on our part to develop economic relations with South Korea, Hongkong and Taiwan. Again, the recent visit of the Prime Minister of New Zealand has resulted in some purposeful consideration of the scope for more trade between his country and ours. In some of these cases, New Delhi had to fight down its antiquated political prejudices; in others, it had to develop an adequate appreciation of the economic advantages involved. It cannot be claimed that these processes have been completed, but there has certainly been much progress, a development for which the Commerce Ministry can take credit, along with other concerned limbs of the government. In fact, Mr Dinesh Singh has distinguished himself by playing a large part personally in throwing open the windows of his ministry so that the winds of the world may blow freely through it. What remains now is for those who participate in the making of our foreign economic policies to put the bit on extravagant flights of untutored ambition. After years of wasted opportunities New Delhi seems at last to be waking up to the practical possibilities of developing gainful trade links or other economic contacts with its neighbours in the Indian Ocean area and the Pacific region. Let not this process be confused or diffused by the promptings of vanity.

Cable Industry: Knotty Problems

THE CABLES and conductors industry can legitimately take pride in having increased its exports from a bare Rs 61.8 lakhs during the first seven months of 1967-68 to as much as Rs 4.76 crores during the corresponding period in the current financial year. This has been achieved in the face of fierce international competition and with only halting government support. Had sufficient support from the government been forthcoming, the industry, in fact, could have done even better. Given reasonable backing, it is confident of stepping up its exports to at least eight crores of rupees during 1969. The industry's capacity to export is of course all the greater, thanks to the stagnant domestic demand.

Addressing pressmen here a few days ago, Mr C. L. Jhunjunwala, President of Indian Cable Manufacturers' Association (ICMA), dwelt at some length on the difficulties which cable manufacturers were encountering. Copper supplies, under the present system of importing primarily against USAID assistance, he said, were not available in time. The overseas buyers of copper cables and conductors wanted their orders to be executed within two or three months of the placing of orders. But under the present licensing policy, this much time is taken up in getting copper alone from abroad. Another two months are required to get the imported copper rolled. A further period of two months is needed to manufacture cables and conductors and start delivering them to foreign customers.

Two suggestions were put forth by Mr Jhunjunwala for enabling the industry to procure copper for use in cables to be exported: (i) the EC grade copper produced in the country by the Indian Copper Corporation (ICC) should be made available to the cable industry against export orders at the London Metal Exchange (LME) prices, and (ii) the existing USAID licences for import of copper should be converted into IDA licences or licences under the West German or Canadian credits. The former measure may require devising of means to compensate the ICC for the loss it will suffer through sale of its copper to cable manufacturers at LME prices but this can be easily done on the same pattern as the supply of steel from indigenous sources at international prices to the exporters of engineering goods. The other suggestion, again, should not pose insurmountable problems.

As regards aluminium, Mr Jhunjunwala's plea for a ban on the export of primary metal has become promptly controversial. This was to be expected. The wisdom of his proposal has been naturally questioned by the manufacturers of the primary metal. But they may not be alone in their misgivings. When the output of the primary aluminium in the country has expanded and is expanding with the result that an export surplus is being generated, any advocacy of restrictions on such exports has got to be very strictly examined for its motives. It is not the case of the cable industry that it is not able to secure its requirements of aluminium from domestic production. The demand for a ban on

aluminium exports is being made on quite different grounds. The contention seems to be that the export of primary metal is spoiling the market for the export of finished products fabricated out of aluminium. There is no evidence to support this view. On the contrary, the available facts point to its untenability. This country is not the only producer of aluminium. It is not even one of the main producers. Quite clearly, other countries which want to import the metal can easily do so from other sources if supplies from our country are denied to them.

Again, there is no evidence to suppose that the cable industry can automatically compensate with exports of its products the custom or foreign exchange lost by our country through forgoing the export of the primary metal. Mr Jhunjunwala has himself conceded that the export of cables is still a difficult exercise depending for its success very much on government support and encouragement. It is no doubt true that, by exporting aluminium products rather than primary aluminium, we could earn more foreign exchange and the gain in this respect has been estimated at about 30 per cent. But then such prospects are theoretically true of a whole range of the export transactions. They do not for that reason become feasible. What Mr Jhunjunwala and others in the cable industry could reasonably ask for is that their industry should be allowed to benefit from domestic production of primary aluminium through adequate supplies at fair prices.

This brings us to the question of the price which the cable industry has to pay for aluminium. Mr Jhunjunwala has complained of the recent increase in aluminium prices. Whereas primary aluminium was reportedly exported last year at about Rs 3,300 per tonne, the prices which the cable manufacturers are now paying is higher at Rs 4,200. The export price which the aluminium industry fetches is, however, not a remunerative price. At the same time, to the extent that domestic aluminium prices are higher than those prevailing in the world markets, our industries consuming aluminium as an important raw material do find themselves at a disadvantage in trying to export their products. Quite clearly, any comprehensive programme of export assistance for the cable industry ought to provide for some relief in raw material costs to cable manufacturers without prejudicing the right of the manufacture of aluminium to reasonable profitability. A suitable formula perhaps would be to compensate the aluminium industry by a subsidy on exports.

Mr Jhunjunwala has urged the government to liberalise the export incentives granted to the cable industry. At present the industry is being given for its exports a cash support of 10 per cent and drawback of excise duties. The 10 per cent cash support is provided presumably to offset mainly the state and municipal taxes. There is no denying the fact that exporters of underdeveloped countries such as ours suffer from various handicaps due to higher manufacturing changes, substantial initial expenditure involved in export promotion, etc. If exports of cables and conductors have to be built up on an increasing scale, some price incentive may have to be given to foreign customers. In view of all this, Mr Jhunjunwala's plea for raising cash support at least for exports of aluminium cables and conductors to 20 per cent deserves consideration. As regards copper cables and conductors, the cash support policy needs revision in another way also. Currently 10 per cent cash support is provided for exports of paper insulated lead covered (PILC) cables and that too if the orders are for not less than £100,000. The absence of cash support for other types of copper cables and conductors and for orders of PILC cables which are less than £100,000 is no small hindrance in the way of exports. The drawbacks of excise duty too are sanctioned sometimes very late.

The exports of cables and conductors, however, should get a big push, if we are able to offer long-term deferred payment facilities to the developing countries having large electrification programmes. Due to the weak financial position of the industry, after two years of recession, it is apparently not in a position to compete on its own with foreign competitors in offering attractive deferred payment facilities. Government help will be needed to enable it to compete with foreign suppliers on equal terms. The interest which the industry will have to pay to financial institutions for accommodation of its deferred payment programmes will also have to be fixed reasonably low. The inclusion of cables and conductors in the export lists in bilateral trade pacts with east European countries should help. The industry is apprehensive of pronounced under-utilization of capacity during the fourth Plan period. The addition of nearly 10 million kW to the electricity generation capacity during the five years to 1973-74 should indeed serve to enlarge the market for its products. But unless there is an actual increase in new electricity connections, the situation will not improve materially. Electricity boards lack funds. The finances of municipal committees too are in no better shape. In the circumstances, expansion of the cable industry during the fourth Plan obviously is ruled out. Instead, there is need for diversification of production pattern.

The industry has made a proposal for the manufacture of telephone cables. But this proposal, though several months old, has not been accepted by the government on the ground that the manufacture of telephone cables has been reserved for the public sector. In fact, there is a proposal to set up a second telephone cables manufacturing unit in the public sector at Hyderabad. It is expected to cost as much as Rs 22 crores. If the private sector industry is allowed to produce telephone cables, the investment in balancing equipment will not be more than Rs 2 crores for the same capacity as that of the proposed Hyderabad unit (15,000 kilometres of cables per annum). It should be interesting to know from the Minister for Industrial Development how he proposes to justify the government's priorities and preferences in this case.

Development of Ports

OUR PORTS and harbours, particularly minor ports, suffered considerably during the foreign rule. Even after independence, their progress has been far from satisfactory. In support of these two contentions, Mr M. A. Vairale, Minister for Communications and Tourism, Government of Maharashtra, listed the reports of the committees, commissions and study or survey teams, not those appointed by the Government of India (which may make an even bigger list), but those referred to by the union Minister of Transport and Shipping, Dr V. K. R. V. Rao, in the course of his speeches at the Third Conference on Minor Ports and the Seventeenth Meeting of the National Harbour Board, held in Bombay recently. Besides the Major Ports Commission headed by Mr R. Venkataraman, Member, Planning Commission, constituted early last year to go into various aspects of port planning, administration and finance, the list includes the Intermediate Ports Development Committee, the Forward Movement Planning Committee, the Expert Committee on Norms and Accuracy of Hydrographic Survey Units, the committee for an integrated study of a coastline and the committee to consider the setting up of an indigenous consultancy service specialising in ports, harbours, inland water transport, roads and bridges, apart from state ports' advisory committees, the small committee to deliberate and recommend on the development of Gopalpur or Chandbali, the study team that reported on the master plan development of minor ports in Kerala and the Transport Ministry's team for a census of port floating craft for minor ports, as also its sub-committee of senior engineers for major ports. All this, if it at all does anything, connotes the undoubtedly improved appreciation of the role of ports and harbours in the national transport system. A gratifying feature is the growing tendency to view all the connected problems in an integrated manner instead of an isolated fashion. This is borne out by the re-introduction of the past practice of taking up minor ports development under the centrally-sponsored or aided schemes. The credit for this must, of course, go to the Minister of Transport and Shipping who made a suggestion to this effect even when he inaugurated the First Conference on Minor Ports.

Dr Rao not only indicated broadly the various schemes recommended by his ministry for inclusion in the fourth Plan, but also highlighted certain important considerations that need to be constantly kept in view in regard to both minor and major parts. Thus, in so far as minor ports are concerned, he envisaged the development of Porbandar (Gujara), Mirya Bay (Maharashtra), Karwar (Mysore), Beypore (Kerala), Cuddalore (Tamil Nadu), and Kakinada (Andhra) as falling within the centrally-sponsored programmes. Mr Vairale naturally welcomed the inclusion of the Mirya Bay scheme—development of Bhagwati Bunder at Ratnagiri—where the Government of Maharashtra is providing a sheltered anchorage. Despite his general complaint of unsatisfactory progress, he had the good grace to acknowledge the help of the Government of India in agreeing to release the necessary foreign exchange for the purchase of a 500-ton dredger by the state and also the centre's concern in having approved the scheme of sanctioning loans for mechanisation of the existing vessels or for construction of new mechanised sailing vessels. He also pleaded for central assistance for construction of 10-ft draft jetties at selected minor ports, especially those ports where the traffic by sailing vessels is heavy. Incidentally, the construction of a satellite port to Bombay at Nhava-Sheva, Dr Rao disclosed, is to be among the new important programmes being recommended by the Ministry of Transport for inclusion in the fourth Plan.

One aspect in relation to minor ports on which Dr Rao laid emphasis is the need for achieving integrated development so as to serve the needs not only of cargo and passenger traffic but of fisheries as well. The inter-relation between these two has been highlighted by the recent studies for the master plan development of minor ports in Kerala, and, as Dr Rao observed, the offshore facilities provided at minor ports must be so designed as to achieve maximum versatility, combined with optimum efficiency, in order to serve both fisheries and cargo handling.

Another, and an allied, aspect on which stress was laid relates to the availability of adequate quantities of cargo for full utilisation of the facilities that have already been brought into existence after putting in considerable investment. This is, of course, being constantly studied by the Forward Movement Planning Committee. These studies have shown certain traffic trends. They show, for example, that there was a rise in the annual traffic handled by the minor ports from 3.75 million tonnes in 1951-52 to 7.75 million tonnes in 1965-66. Latterly, while the level of imports of fertilisers is being maintained, that of foodgrains has

been going down. Again, we cannot feel confident of keeping up our iron ore exports, unless we are able to satisfy the foreign buyers in regard to faster loading facilities and quicker turn-round of their carriers. Moreover, as Dr Rao said, the most important single element that influences the marketability of iron ore in the foreign markets today is the ocean freight which decreases proportionately to the increase in the size of the ore carrier employed. All these demand modern mechanical ore handling facilities in which we have only made a modest beginning even in our major ports at Visakhapatnam and Paradeep—the hourly rated capacity is just over 2,000 tonnes—and are proposing to improve them at Mormugao, Madras and Haldia.

Dr Rao disclosed that his Ministry has recommended to the Planning Commission an outlay of Rs 297 crores for the development of major ports, of which Rs 67 crores are to be for continuing existing schemes, leaving a net sum of Rs 230 crores for new ones. The major ports themselves have to find, from their own resources, Rs 100 crores. In other words, the centre's proposed outlay on major ports during the fourth Plan period will be Rs 197 crores. The major schemes now under way that are expected to be completed are the Haldia Dock System (1970-71), the Madras Outer Harbour (1969-70), and the Mangalore and Tuticorin Harbour projects (end of 1971). Important among the new programmes are the Mormugao Port Modernisation Programme, the Visakhapatnam Outer Harbour Scheme, the Madras Iron Ore Handling Scheme, navigational and other major improvements and the construction of a general cargo berth at Paradeep, facilities for handling deep drafted oil tankers at Cochin, construction of a satellite port to Bombay at Nhava-Sheva and commissioning of the fifth berth at Kandla, besides programmes—and this is important —for container handling facilities at Bombay and Haldia.

The two issues that Dr Rao highlighted in his speech at the National Harbour Board meeting were the changing patterns of our international trade and the need for corresponding adjustments in our port facilities. The programmes outlined earlier, it is needless to say, have taken note of these developments, although, we must add, they are nowhere near what is needed due to the limited availability of resources. It is perhaps because of limited resources that Dr Rao chose to lay special stress both at the Minor Ports' Conference and at the National Harbour Board meeting, on the need to standardise port craft and equipment and to promote indigenous technical know-how for setting up an indigenous consultancy organisation. In regard to both, it is gratifying to note, preparatory work has been completed and necessary steps are being taken to launch them.

Small-Scale Units in Distress

WITH THE introduction of social control of banks and the allocation of credit by the National Credit Council, finance should, at least in theory, cease to be a headache to units in the priority sectors—agriculture, exports and small-scale industries, among others. However, it is still the ideal. In reality, on the other hand, even units in these priority sectors continue to experience difficulty as much for finance as for a number of their other requirements as well. Take, for example, the small-scale industries. Their cry is still for timely and adequate finance, as Mr P. S. Mokashi, former managing director of the Maharashtra State Financial Corporation, with his personal experience for eight years of providing finance to small-scale industries, confessed at a symposium on "Problems of Finance for Small-scale Industries Sector" arranged, the other day, by the Indian Merchants' Chamber, Bombay. More or less a similar view was expressed by the former president of the Bombay Industries' Association, Mr S. P. Zaveri, when he said that, "the attitude of the banks to assist new entrepreneurs is not very helpful."

The sound test of bank assistance to small-scale industries, he said, "is not so much in the total amount of limits sanctioned, but the promptness with which new borrowers are brought within its ambit." The charge was not repudiated but confirmed by the Deputy Governor of the Reserve Bank, Mr B. N. Adarkar, who also participated in the symposium. "It is a fact", he said, "that, with the exception of the State Bank of India, commercial banks have so far not paid adequate attention to the small-scale sector", and he gave certain figures in corroboration. According to these, at the end of March, 1967, not more than seven per cent of the total outstanding advances of commercial banks were granted to small-scale industries. The total limits sanctioned to them at the end of March, 1967, were only Rs 179 crores, while, between March, 1967, and March, 1968, according to Mr Adarkar, the limits are estimated to have increased to Rs 350 crores. Even so, actual advances to small-scale industry at the end of June, 1968, amounted to only Rs 210 crores out of the total advances of Rs 3,100 crores. And most of it too was only short-term credit.

Even in the case of the State Bank of India, despite the ably argued out case by the Chief Officer, Small-scale Industries, State Bank of India, Mr H. E. Chatelier, term loan to small-scale units at the end of September, 1968, amounted to no more than Rs 7.5 crores! (At the end of June, 1968, itself, according to Mr Chatelier, advances to small-scale industry aggregated Rs 63 crores out of total advances of Rs 776 crores —a little above eight per cent—, but this might represent all assistance, not short-term only. According to the IMC president, the share of small-scale industries in the total long-term and medium-term credit supplied to industries by various institutional sources comes to not more than 10 per cent.

On the face of it, this is not a fair deal to small-

scale industries, which, as Mr Pratap Bhogilal, President of the Indian Merchants' Chamber, observed in his welcome speech, accounts for nearly 35 per cent of total industrial employment, 30 per cent of gross output and 22 per cent of net value added. Even taking the factory sector alone, the small-scale units account for over 90 per cent of the total units in the sector and contribute about 20 per cent of the total output in that sector. The total number of small-scale units in the country is estimated to be over 125,000, but less than 50,000 of these are receiving credit facilities from commercial banks. Here, again, commercial banks are not solely to blame, an impression that is often sought to be conveyed. As in respect of finance to agriculture, finance to small-scale industries also was regarded until recently as the special preserve of co-operative and a host of other governmental agencies established with the specific purpose of aiding small-scale industries. These, which may be listed here for purposes of record, include, besides the Reserve Bank of India and the State Bank of India, state financial corporations, State Aid to Industrices Act, National Small Industries Corporation, state small industries corporations, industrial co-operative banks and urban co-operative banks, all of which together (excluding the Reserve Bank and the State Bank) accounted for just as much or only a little more than the contribution of the scheduled commercial banks, and that with all the assistance and concessions from the government enjoyed by them.

The report of the working group (appointed by the Reserve Bank) on industrial financing through co-operative banks has some interesting observations to make on the extent, nature and effectiveness of financial assistance provided to small-scale industries in the co-operative sector, much of which is relevant to small-scale industries outside the co-operative ambit as well. So it is not only commercial banks, but co-operatives and other state agencies also have to recognise their shortcomings in providing credit to small-scale industries.

What is not sufficiently appreciated is the avidity and alertness of commercial banks to adapt themselves to the new situation. Not only do they continue to play a strategic role in the country's economic development in mobilising resources, but they have willingly allowed their lending policies to be permeated more fully than even before by the national objective, even to the extent of wanting to ensure that mere considerations of safety and profitability are not allowed to have an overriding influence in the formulation and implementation of these policies. Mr Adarkar himself indicated, what the stipulation to commercial banks by the National Credit Council (NCC) is and how fruitful the Reserve Bank's discussions on this subject with major bank have been. The NCC has stipulated that commercial banks should increase their credit to small-scale industry by Rs 60-70 crores over a period of one year, and this is equal to one-fifth of the anticipated increase in the total bank credit.

Following their discussions with the Reserve Bank, major banks, accounting for some 86 per cent of the total deposit resources, have accepted individual targets for additional credit for small-scale industries for the 12-month period ending June, 1969, aggregating Rs 92 crores, or an increase of 50 per cent over the June, 1968, level of Rs 181 crores. And, in order to give effect to this undertaking and achieve the targets, again according to Mr Adarkar, commercial banks have already taken various steps.

But, as the Deputy Governor took care to add, this is not enough. Even the suggestion of a separate bank for small-scale industries, a suggestion that was mooted at the Gujarat Industries Conference in Ahemedabad recently and reiterated by Mr R. T. Popawala of Surat at the symposium, will not do. A big effort is needed in the matter of organisation and training, not only to prepare the groundwork but to keep a continual supply of expert technical advice and guidance, as the Working Group on Industrial Financing Through Co-operative Banks has rightly stressed. In this connection, Mr Adarkar's suggestion for a consultative machinery between state governments and commercial banks, whereby certain specified agencies of state governments will be charged with the duty of forwarding applications from small-scale units to commercial banks, furnishing data concerning such units, helping commercial banks to appraise loan proposals to the extent possible and following up the end-use of credit, is a very timely and practicable one.

Another suggestion of Mr Adarkar also was helpful and constructive. He wanted the chambers of commerce and the various manufacturers' organisations to undertake special studies as to how far their industrialist-members are making use of the services of small-scale units or entrepreneurs and how far they can help such units in obtaining their credit needs from commercial banks by testifying to their performance in the matter of output and quality or to their creditworthiness.

Eastern Economist 25 Years Ago

FEBRUARY 11, 1944

It is a token of the great measure of advance in our general economic thinking, forced no doubt by the pressure of wartime experience, that many even in conservative economic circles have been quick to recover from the first shock administered by the figure of rupees ten thousand crores and come round to the view that finance no longer constitutes the limiting factor in carrying through the Bombay Plan. Hitherto we have talked in terms of billions only in relation to the economies of the advanced western countries like the United States or Great Britain. It is a signal service rendered by the Bombay planners that they have translated the order of billions into our economic conditions and helped us to adjust our thoughts to the dimensions of an adequate economic plan.

Is PL 480 Finance Inflationary?

SITESH PRAKASH

PROF. B. R. Shenoy's latest attack on PL 480 finance* is interesting in some respects. Besides the dramatic presentation of facts to tilt the scale in his favour, it repeatedly makes mention of a schoolboy's account. The controversy set forth by Prof Shenoy has already attracted much attention and the article in question has enough material in the form of data to further complicate a clear understanding of the issue.

Prof. Shenoy's schoolboy story reminds me of a schoolboy's quiz and I hope to be excused for bringing forth a similar analogy. The quiz states: A boy goes to a watch shop and purchases a watch on cash payment of Rs 100. Later, the shopkeeper realises that the watch was worth Rs 95 only and sends his servant to return five rupees to the boy. The servant gives three rupes only to the boy and appropriates two rupees. The problem is: out of Rs 100, the boy gets his watch for Rs 97 (Rs 100 paid by him earlier minus three rupees received by him through the servant) and two rupees have been taken by the servant which makes the total Rs 99 only. What happened to the remaining one rupee?

As a matter of fact things are absolutely simple but the problem, as stated, is complicated enough to confuse any schoolboy. The rupee in question can by no means vanish or melt into the air. It is obviously there. Only mixing-up of two separate accounts gives rise to something in the name of a problem. That is precisely how the operation of PL 480 loans has been presented and it looks like a nasty source of inflationary pressure in the economy.

Operation of the Account

The operation of PL 480 accounts must be well-known, at least to those interested in the subject, but it would be desirable to spell out the transactions before attempting any logical analysis.

Under the US Public Law 480, foodgrains and other agricultural commodities such as cotton, tobacco, soyabean, etc., are imported from the USA against payments to that country in rupees. Thus far this import is nothing but a purchase on cash. But the condition, which provides this cash transaction the nature of assistance or loan, is that a part of this rupee payment is paid to the Government of India in the form of a loan or sometimes in the form of a grant for assistance. The remaining part of the rupee payment is used by the US embassy or the joint Indo-US enterprises in India under Cooley loans.

The payment (the rupee equivalent of the dollar cost) for the import of PL 480 foodgrains, is made by the Government of India, as in the case of all other foodgrains purchased by it, by debit to head "124—Capital Outlay on Schemes of Government Trading—Schemes for Purchase of Foodgrains". As the money so paid is only to be spent in India, whether for giving loans or grants to the Government of India or for US government's expenditures in this country, it is paid to the US Disbursing Officer in India. Further, instead of the payment being made in cash, it is, under agreement, deposited with the Reserve Bank of India in the US Government Title Account. Similarly, principal and interest payments of PL 480 are also credited to the above account. These payments appear on the disbursement side of the Government of India's capital budget while the rupee cost of PL 480 loans appears on the receipts side.

The US Disbursing Officer, like any other person having his account in the bank, is free to operate the US Government Title Account with the Reserve Bank of India by issuing cheques. Similarly the Reserve Bank of India is also at liberty to invest, (like any other deposit), the amount so deposited with it. This is what actually happens. The US Disbursing Officer makes payments to the Government of India, for providing assistance, in cheques, just as to any other person or body for meeting the expenses of the embassy. On the other hand, the Reserve Bank of India invests the above-mentioned funds in special non-negotiable securities of the Government of India which are repayable on demand and carry interest at 1.5 per cent per annum.

Normal Transactions

The above transactions are perfectly in conformity with the rights and practices of any bank or any person having his account in a bank. One will surely wonder as to how such simple transactions could cause inflation.

What confused Prof. Shenoy is nothing but the mixing-up of two accounts, as in the schoolboy's quiz mentioned above. In his article he has shown† total receipts under PL 480 as composed of:

1. Sale proceeds of PL 480 imports, and
2. Cheques received from the US embassy on account of PL 480 loans.

This clearly amounts to double counting. As already explained the sale proceeds of PL 480 imports and PL 480 loans cannot, and should not, be added up because they are not two receipts independent of each other. The latter is a part of the former. The PL 480 loans are paid out of the sale proceeds of PL 480 imports. If, at all, the sale proceeds of PL 480 imports be added on the receipts side, payment in rupees of the sale proceeds of PL 480 imports must also be mentioned on the disbursement side. These entries, i.e., sale proceeds of PL 480 imports on the receipts side as well as on the disbursement side, cancel each other and the actual PL 480 loan has nothing to do with the sale proceeds of PL 480 imports. In his accounting Prof Shenoy has included sale proceeds of PL 480 imports on the receipts side but, knowingly or unknowingly, failed to mention it on the disbursement side, for which the payment is made by the Government of India by debit to head 124—Capital Outlay on Schemes of Government Trading—Schemes for Purchase of Foodgrains.††

Prof Shenoy has surely no objection against the payment for PL 480 imports in rupees, because he has nowhere raised any objection to it. Moreover, it should be clear, the receipts under PL 480 do not come as loans because they are on cash payment. It is a different matter that the payment, under agreement, is made in rupees. It is yet another fact that the payment, instead of going directly to the US government, is made to their nominee, the US Disbursing Officer in India. One can also have no objection to it. Again, instead of direct

* Eastern Economist Silver Jubilee Number, July 26, 1963. Pp. 151-55.

† Ibid, p. 151. col. 2.

†† Government of India: Explanatory Memorandum on the Budget of the Central Government for 1968-69, p. 59.

cash payment, by hand, there is no harm if, by mutual consent, the amount is credited to the US Government Title Account in the Reserve Bank of India which is at the disposal of the US Disbursing Officer.

Prof Shenoy may, at this point, have some objection against Reserve Bank of India's practice of investing these deposits in securities of the Government of India, which amounts to deficit financing by increasing the net Reserve Bank of India credit to the government. But it is absolutely wrong to conclude that in the absence of such food imports there will be no deficit financing. Deficit financing is a decision of the government which entirely depends on its expenditure policy and the programmes in hand rather than on any particular import. Even in the absence of PL 480 imports, or the payment of its sale proceeds by credit to the US Disbursement Officers' account in the RBI, Government of India would have obtained funds against government securities.

Moreover, the entire investment of the sale proceeds of PL 480 imports in government securities does not add to the net Reserve Bank of India credit to the Government of India. A large part of it is withdrawn by the US Disbursement Officer to lend to the Government of India or meet other expenses in this country. Only the net balance of the account is actually invested in the securities. These withdrawals are no doubt made by cheques which in terms of the book entry serve to cancel the investment in securities. Net investment of PL 480 receipts in such securities i.e., total deposits by government minus total withdrawals by the US embassy, during 1967-68 and 1968-69 are given below and it is clear

NET INVESTMENT OF PL 480 RECEIPTS

(In crores of rupees)

	Budget 1967-68	Revised 1967-63	Budget 1968-69
I. Investments representing payments made by the Government of India.			
Rupee cost of PL 480 imports*	265	291	176
Principal and interest payments of PL 480/DLF and TCM Loans	62	62	65
Interest earned on Special Securities	10	13	12
Total investments:	337	336	253
II. Withdrawals representing PL 480 Loans/Grants to Government of India.			
PL 480 Loans	150	250	175
PL 480 Grants	—	—	5
Withdrawals representing the net effect of other transactions e.g., embassy expenditure, Cooley Loans	52	45	48
Total withdrawals	202	295	228
III. Net investments	135	71	25

Source: Government of India: Explanatory Memorandum on the Budget of the Central Government for 1968-69, p. 59.

* In addition the PL 480 imports financed by convertible Local Currency Credit would be Rs 45 crores in 1967-68 and Rs 69 crores in 1968-69.

that its magnitude is far less than that of the amount received in form of PL 480 loans.

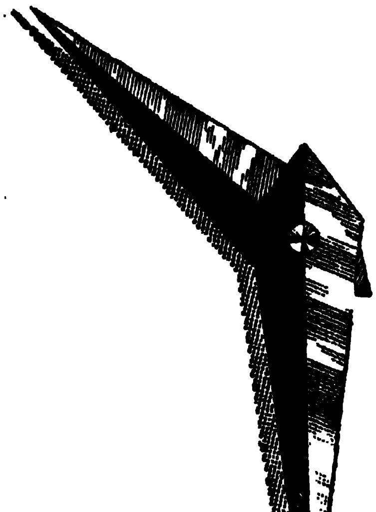
The problem can be viewed from an entirely different angle, too. Forgetting all about the monetary transactions in respect of the PL 480 receipts and loans, let us examine whether or not the import of food is inflationary. It needs no explanation that inflation is caused by the increase in money supply in relation to the goods and services available to the community during a certain period of time. The chief remedy of inflation lies in increasing the supply of available goods and services, especially those in increased demand.

Confused Accounting

The import of foodgrains under PL 480 served to increase the supply of foodgrains, one essential commodity so greatly in demand by the people. It is, therefore, nothing but a grave blunder to conclude, on the basis of mixed-up and confused accounting entries, that PL 480 imports caused inflation in the economy

Prof Shenoy has gone to the extent of asserting that "during the past three years inflation in India has wholly ensued from US embassy disbursements of PL 480 rupees with it". It is true that recently "prices rose at a near record rate of over 15 per cent per year" but it is simply surprising that he views the price rise without the slightest reference to the record crop failure in two consecutive years and the decline in production of some of the industrial units. Does he mean to say that excessive investment in the economy, especially on the long-term projects, the policy of redistribution of money, credit expansion by the private banks and recent repeated rise in dearness allowance had no inflationary effect whatsoever on the economy and "inflation in India has wholly ensued from US embassy disbursements of PL 480 rupees with it"? If so, it is nothing but an illusion caused by mixing-up of different accounts.

"A new export product is developing—I see!"



States' Public Debt

P. K. BHARGAVA

IN A federal structure the functions and resources have to be distributed, between the centre and the states, to ensure harmony; also, to optimise national welfare it is essential that the functions and resources between the two layers of government should be based on scientific considerations. The manner in which it has been handled by our Constitution(1) has caused a serious disequilibrium: the centre has relatively greater spending power than it needs while the states have relatively inelastic resources as compared to their functions. The states cannot meet their entire fiscal needs merely by tax revenue; they have to tap other sources of revenue as well. Loan finance is one of the sources on which the state governments have depended heavily. Even if the state governments wish to fulfil all their financial needs only by tax revenue they cannot do so because too much taxation will hamper initiative, enterprise and risk taking.(2) Apart from this, the tax tolerance of the people in a poor country such as ours is low. Thus partly because of the inadequate tax revenue and partly because of the growing fiscal needs of the states, there has been an enormous growth in their public debt. During the last three five-year Plan periods both the central and the state governments have depended heavily on loans to finance the programmes of planned economic development. The public debt of the state governments increased from Rs 445.28 crores at the end of March 1952 to Rs 5 501.64 crores at the end of March 1966—a rise of Rs 5,056.36 crores or 1,136 per cent over the period of 15 years.

The classical economists were against loan finance mainly on the ground that government loan finance withdraws funds from productive private investment and government borrowing makes future financing more difficult. They also disliked loan finance because it could leave the budget unbalanced.(3) However, with the changing conception of duties and responsibilities of governments, debt creation has become inevitable. With the increasing capital expenditure of the states, it is often impossible to finance the entire expenditure, on capital account, out of taxes. Moreover, if the state governments meet all their financial requirements by taxing people the burden on the community would be too heavy. It would adversely affect the incentive to work and thereby retard economic development. It has, therefore, been rightly suggested that "a fraction of total financing should be loan financed when total expenditures are unusually high",(4) specially where the government expenditure leads to creation of remunerative assets. Such an arrangement would achieve equity over time and the burden on the present generation would not be too heavy.(5)

The Various Components

The public debt of the state governments consists of permanent debt, floating debt, unfunded debt, loans from the central government and other debts received from various autonomous bodies such as the Life Insurance Corporation of India and loans from the Agricultural Credit Fund of the Reserve Bank of India, the Khadi and Village Industries Commission and the National Co-operative Development and Warehousing Board. The permanent debt covers loans raised in the open market having a currency of more than 12 months. It includes both cash and conversion loans. The floating debt consists of transactions relating to borrowing of a purely temporary nature repayable within 12 months, e.g., treasury bills or ways and means advances from the Reserve Bank of India. The term unfunded debt is used to describe a number of interest bearing obligations of the government in respect of state provident funds, employees' insurance contributions, etc. Loans from the central government are obtained for a variety of developmental purposes, mostly for schemes included in the Plan.(6) The value of each loan varies according to the purpose for which it is sanctioned. Loans from the centre are repayable in different periods of time ranging from one to 40 years. Some loans are free of interest; most of them bear a rate of interest ranging from one to five per cent.

An essential feature of the states' public debt has been their rapidly increasing indebtedness to the centre. The states' indebtedness to the centre increased from Rs 238.54 crores at the end of March 1952 to Rs 4,094.63 crores at the end of March 1966. Whereas the share of the central loans in the states' debt was 54 per cent at the end of March 1952, this percentage increased to 76 at the end of March 1966. These data indicate that the states are heavily indebted to the centre and they cannot raise any loan on their own accord so long as they are in debt to the centre.(7) Under Article 293(3) of the Constitution, "A state may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the state by the Government of India....or in respect of which a guarantee has been given by the Government of India." Since the inauguration of our Constitution all the states are indebted to the Government of India. Thus the centre may impose such conditions as it deems fit on the borrowing programmes of the state governments. The states may at times oppose the advice of the Government of India but they have hardly any choice in this matter.

States' Complaint

The state governments have often complained that the central government is placed in a favourable position in raising funds as it is able to secure foreign loans at concessional rates of interest and resources raised through deficit financing are virtually free of interest.(8) The state governments have, therefore, argued that in fixing the rate of interest on central loans to them these factors must be taken into account. This question was examined by the Second Finance Commission. It rightly observed that, "the large number of loans given and the wide variations in the rates of interest and the terms of repayment have introduced an avoidable complication in the financial relations between the union and the states. It will simplify matters and save a great deal of labour and accounting, if these loans are consolidated and the rates of interest and the terms of repayment rationalized".(9) The commission, therefore, recommended that, "the reasonable rate to be charged to the states by the union should be 3 per cent and this rate should apply to all loans, irrespective of the period of maturity."(10) The commission also recommended a scheme of consolidation which, it estimated, would reduce the interest charges by five crores of rupees per annum for all the states.

The state governments have been in a tight financial position and they have not been able to pay regularly even the annual interest charges on the loans taken from the Government of India and have obtained further loans to pay the interest charges. The Fourth Finance Commission was asked to recommend the creation of a fund out of the excess, if any, of the net proceeds of estate duty on property other than agricultural land accruing to a state in any financial year for the repayment of the state's debt to the central government. The commission was opposed to it and observed that, "As the total annual net proceeds of estate duty assignable to the states are only about Rs 7 crores at the current levels of taxation, it would not be of any practical value to create a fund by contributing a part of these proceeds."(11) But in recommending grants-in-aid to the states, under Article 275 of the Constitution, the commission took into account the requirements of the states for payment of annual interest of

loans outstanding at the end of the third Plan and the loans that will be raised by the states during the fourth Plan. The commission rightly recommended that, "the entire question of indebtedness of the states and the soundness of the existing borrowing, interest payment, repayment and accounting practices in this respect should be reviewed on the basis of detailed study and report by a competent body to be set up for the purpose."(12) This has not been done so far. If proper steps are not taken regarding the repayment of principal and interest charges on loans, loans from the centre to the states will become merely a book entry as the states can repay only by borrowing afresh from the centre. A considerable amount of these loans may have to be written off ultimately.

The Government of India has always borrowed on more favourable terms than the state governments. Even among the state governments there is disparity in the terms on which loans are raised. Maharashtra and West Bengal have been able to float loans on more favourable terms than other states because Bombay and Calcutta are business centres, where loanable funds are more easily available. The governments of Bihar, Assam, Madhya Pradesh, Rajasthan, Uttar Pradesh and some other states have to provide more attractive terms to raise loans. This creates a false impression that their financial strength is weaker than states which can raise loans on better terms. All states float loans according to the advice of the Reserve Bank of India regarding the terms of borrowing. Usually, the terms of loans in different states are similar but there is a difference in the issue prices. In 1959-60 the state governments issued 4 per cent State Development Loan, 1974. The issue price was Rs 100 in the case of Maharashtra, Rs 99.50 in the case of Uttar Pradesh, Andhra Pradesh, Rajasthan, Bihar, Tamil Nadu, Mysore and West Bengal; and Rs 99 in the case of Madhya Pradesh, Assam, Orissa, Kerala and Punjab. During the same year the Government of India issued 4 per cent loan, 1979, at par and 3¾ per cent loan, 1974, at an issue price of Rs 99.65. In 1962-63 all the state governments issued 4½ per cent State Development Loan, 1974, at discount rates ranging from 25 paise to 50 paise excepting Maharashtra and Gujarat loans which were issued at par. During the same year the Government of India issued 4½ per cent loan, 1985 at par and 4 per cent loan, 1972, at an issue price of Rs 99.20.

Need for Centralisation

There is an urgent need to centralise the loan operations of the Government of India and the state governments. Centralisation in market borrowing is desirable for two reasons. Firstly, the states' have to pay a relatively higher rate of interest as compared to the central government. This is resisted by the state governments. Secondly, the market price of state loans is usually lower than similar loans of the central government. Centralised borrowing will remove these weaknesses. It will also help in ensuring fiscal co-ordination and integration between the centre and the states in their borrowing programmes. The past experience of various federations, such as the United States of America and Australia, demonstrates that lack of co-ordination in the borrowing programmes of the centre and the states may result in serious difficulties for the economy.(13) Mrs Ursula K. Hicks also has rightly emphasized that "in the older federations uncontrolled borrowing by the states gave rise to repeated trouble and led to the virtual bankruptcy of certain states".(14) Accordingly, we find that since 1924 the Australian Loan Council has been operating in Australia to co-ordinate the borrowing programmes of the states and the federal government.

For the effective implementation of the scheme of centralised borrowing there should be some agency that carries on borrowing operations on behalf of both the centre and the states. An agency could be constituted on the model of the Australian Loan Council. This task, in the present circumstances, could also be entrusted to the Government of India which could raise all loans and distribute the proceeds among the centre and the states in accordance with the recommendations of the Finance Commission. The Finance Commission should meet, at least, once a year for this purpose. The state governments have opposed centralised borrowing because of their experience in 1963-64 when the central budget for that year was to raise gross market borrowings of Rs 393 crores, including Rs 100 crores to be raised on behalf of the state governments. The Government of India actually made over Rs 101 crores out of its borrowings and the share of each state was determined on the basis of gross amount borrowed by it from the market in 1962-63. It was felt that this procedure did not leave sufficient opportunities for the state governments to exploit sources of finance available to them while it gave rise to the difficulty of determining the share of individual states. The state governments also felt that it would reduce elasticity in their borrowing programmes as their quota would be fixed by the Government of India. It is suggested a common agency should raise as much loan finance as the market can absorb and allocate the proceeds between the centre and the states and determine the share of each state government on an impartial and semi-judicial basis after taking into account their relative needs. This will increase elasticity in state borrowing and the states will not feel subordinate partners under a common borrowing arrangement. Such an arrangement will also bring about greater integration in the fiscal policies of the centre and the states.

States' Assets

Against the large public debt of the state governments we have also to consider the large assets they own. The state governments have provided loan assistance to local bodies, official and private bodies, for different purposes. Loans to cultivators are granted for purchasing implements and accessories for farming, construction of irrigation facilities, reclaiming lands, development of horticulture and for providing relief from rural indebtedness. Loans to municipalities are provided for improving water supply, drainage, street lighting, constructing roads and buildings and promoting sanitary schemes. Loans to other local bodies are given for public utility works and construction of bridges and schools and office buildings. Miscellaneous loans are provided for certain developmental schemes and industrial concerns. Loans to government servants are provided for house construction and for buying modes of conveyance, specially motor cars. Besides, loan assistance is provided under the community development programme and other development schemes including loans and advances to state electricity boards.

The significance of government loans to these various parties lies in the fact that they help to increase capital formation in the economy. "Increasing measures of governmental assistance in the various housing schemes—industrial, rural plantation, labour, middle income and low income groups—make up a considerable extent for the absence (till recently) of industrial agencies such as the UK. Loans to the agricultural sector are made available chiefly, under the Land Improvement Loans Act, for reclaiming land, digging wells and developing other irrigational resources, laying of new orchards, plantations, for purchasing agricultural implements and fertilisers, and for constructing farm houses and cattle sheds, etc. It may also be pointed out that governmental assistance had played a significant role in rehabilitating displaced persons".(15) In view of the fact that these loans and advances are made by the government for a variety of purposes they have increased rapidly. "Over the period 1951-52 to 1965-66 the quantum of loans by states rose by 749 per cent."(16).

It must be emphasized here that the large public debt of the state governments should not be regarded as a matter of grave concern because the state governments have taken these loans for development purposes and have invested them pro-

ductively into electricity schemes, road transport, industrial development, irrigation schemes and multi-purpose river valley schemes, etc. The states' total capital outlay on these development items increased from Rs 100.29 crores in 1951-52 to Rs 315.15 crores in 1961-62 and further to Rs 403.89 crores in 1965-66. Such capital outlay has greatly helped in strengthening the infrastructure of the economy. Besides the assets which the state governments own, they have also balances in various sinking funds and other funds which they have mostly invested in the securities of the Government of India. In addition, the state governments possess the outstandings of loans and advances made by them to various agencies and parties. They also have cash balances with them and own several buildings and property. Over and above this, the state governments have been very cautious about their public debt policy by making large appropriations for reduction or avoidances of debt in the annual revenue budget. In fact, they have been following a very rigid and orthodox policy in servicing the public debt.(17) The expenditure of the state governments on debt services increased from Rs 8.49 crores in 1951-52 to Rs 99.66 crores in 1961-62 and further to Rs 398.53 crores in 1967-68 (budget). The rapid increase in expenditure on debt services is also on account of the new technique that has been followed by the state governments since 1962-63. Up till 1961-62 recoveries of interest by state governments and debts to their commercial departments was adjusted as reduction of expenditure. But now this procedure has been changed. Since 1962-63 receipts of interest on capital advanced to commercial departments as also recoveries of interest on loans and advances are credited to the revenue head 'Interest'.

Emulating the Centre

The Government of India's net expenditure on interest was Rs 61.27 crores in 1964-65 (budget) and the appropriations for reduction or avoidance of debt was five crores of rupees in that year which was approximately eight per cent of the net expenditure on interest. The net expenditure on interest for all the states in 1961-62, after deducting interest receipt, was Rs 13.09 crores. It appears that the uncovered debt (debt against which interest yielding assets do not exist) of all the states in that year was Rs 327 crores assuming the rate of interest to be four per cent per annum. Against this the state governments provided Rs 31.69 crores as appropriations for reduction or avoidance of debt. Such heavy appropriations inflate and unnecessarily burden the budget of the state governments. If the states were to emulate the example of the Government of India they should have provided Rs 1.05 crores as appropriations for reduction or avoidance of debt which is approximately eight per cent of their net expenditure on interest. Assuming the uncovered debt of the states at Rs 327 crores an annual appropriation approximately of Rs 10 crores per annum should be sufficient to offset their entire debt in a span of 30 or 35 years. Hence the state governments can save a substantial amount if they follow the practice of the Government of India in making annual appropriations for reduction or avoidance of debt. The saved amount could be utilised for expenditure on useful schemes on revenue account. However, the suggested change would not increase the total resources of the states. The advantage of the present technique of making heavy appropriations is that it enables the state governments to finance capital expenditure out of the revenue proceeds and thus the assets in the public sector are created

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1. See the author's article on "Centre-State Financial Relations", 'Eastern Economist', May 3, 1968, Pp. 897-98.

2. Professor Colin Clark is of the opinion that if tax revenue exceeds 25 per cent of GNP, the symptoms for inflation begin to develop in the economy.

3. For a detailed discussion see Jesse Burkhead, "The Balanced Budget" in 'Readings in Fiscal Policy', 1955, Pp. 3-27.

4. R. A. Musgrave, 'The Theory of Public Finance', p. 568; Alvin H. Hansen is of the view that, "The lumpiness of certain large capital investments made borrowing well-nigh imperative", 'Fiscal Policy and Business Cycles', p. 138; James M. Buchanan asserts that government "should borrow only to finance long-term or capital investment projects which are expected to yield benefits over future time periods". 'Public Principles of Public Debt, 1958', p. 166.

5. Tax finance reduces the disposable income of the people as taxes are mostly paid out of current income. Loans are generally subscribed out of the savings and people do not, generally, reduce their consumption to subscribe to voluntary loans. Thus taxes tend to reduce current consumption and impose an objective burden on the present generation. In the case of loan finance present generation need not reduce its consumption.

   Regarding the controversy of public debt burden see Carl S. Shoup, "Debt Financing and Future Generations", 'The Economic Journal', December 1962, Pp. 888-97; W. G. Bowen, R. G. Davis, D. H. Kopf, 'The Public Debt: A Burden on Future Generations', 'The American Economic Review', September 1960, No. 4, pp. 701-4; J. E. Meade, "Is the National Debt a Burden", 'Oxford Economic Papers', June 1958, Vol. 10, No. 2, pp. 163-83; Abba P. Lerner, "The Burden of Debt", 'The Review of Economics and Statistics', May 1961, Vol. XLIII, No. 2, Pp. 139-41; Alvin H. Hansen, "The Public Debt Reconsidered: A Review Article", 'The Review of Economics and Statistics' November 1959, Vol. XLI, No. 4, pp. 370-78; Franco Modigliani, "Alternative Fiscal Policies and the Burden of the National Debt", 'The Economic Journal', December 1961, pp. 732-36; James M. Buchanan, "Public Principles of Public Debt", op cit, pp. 4-20 and 102-22.

6. During the first Plan period the number of outstanding loans increased by about 2,500 and owing to a larger development programme during the second Plan this number was about 6,000 at the end of August 1958.

7. The state governments are not allowed to raise loans outside the union territory of India.

8. It is true that the Government of India pays interest to the Reserve Bank of India on the rupee finances raised from the Reserve Bank through treasury bills or loans. However, the profits of the Reserve Bank accrue to the Government of India.

   'Report of the Finance Commission', 1957, p. 53.

   Ibid, p. 57.

   'Report of the Finance Commission', 1965, p. 13.

   Ibid, p. 53.

   See R. N. Bhargava, 'The Theory and Working of Union Finance in India', 1967, Pp. 174-76.

   Ursula K. Hicks, 'Development Finance—Planning and Control', 1965, p. 110.

15. 'Reserve Bank of India Bulletin'. March 1966, p. 230.

16. Ibid, p. 236.

17. See the author's article, "Orthodoxy in States' Budgeting for Servicing of Public Debt." 'Indian Journal of Economics', January 1967, pp. 305-8.

Strategy for Industrialisation in Andhra Pradesh

RAM K. VEPA

THE RECENT announcement by the Government of Andhra Pradesh of a "package" programme of incentives for new industries represents a renewed awareness in that state for the need to attain rapid industrial growth. Although Andhra Pradesh has taken impressive strides in agriculture in recent years its industrial economy continues to be backward compared to that of such states as Tamil Nadu, Maharashtra, Punjab and Bengal. Its per capita income is almost the same as the national average but in specific indices relating to industry it stands well below the mean level in the country; its per capita consumption of electricity, for instance, is barely 30 kWh as against an all-India average of 66 kWh while its annual per capita income from industry alone is barely Rs 15 as compared to Rs 81 in Maharashtra, Rs 58 in Gujarat and Rs 33 for the country as a whole.

The reasons for the wide disparity between agricultural prosperity and industrial stagnation in Andhra Pradesh are not hard to seek. Watered by two of the biggest rivers of the south—the Godavari and the Krishna—and irrigated by an ingenious canal system engineered by Sir Arthur Cotton 100 years back, Andhra Pradesh has long been regarded as the "granary" of the south. Although the Telengana and Rayalaseema areas of the state contain a variety of minerals (limestone, barytes, asbestos, coal, iron ore, quart etc.,) their exploitation on a large scale was not taken up with the solitary exception of coal. While therefore there have been built up over the years traditional 'skills' in agriculture, there has been no corresponding advance in accumulating the 'know-how' for industrial development.

In fact, it was only during the third Plan period that a beginning was made to break this vicious circle. The main element of the strategy for industrialisation at the time was to request the location of some of the massive central sector projects so that they might, in turn, stimulate and generate new industrial growth. It was on this basis that such projects as the Heavy Electricals, the Machine Tool Plant, the Synthetic Drug Project, the Hindustan Aeronautics Plant, at Hyderabad and the Shipbuilding yard at Vizag representing a total investment of about Rs 100 crores were proposed to be set up for which, in return, the state government provided free of cost extensive land (some of it acquired through compensation) and made the necessary infrastructure available.

Public Sector Projects

These projects, however, represented a small fraction of the Rs 3,000 crores invested all over the country in the public sector during the three Plan periods and there was, therefore, considerable public agitation a few years back for the location in the state of a steel mill with a capacity of 1.5 million tonnes involving an outlay of about Rs 500 crores to remedy the growing regional imbalance in the country. Although the project was deferred at that time due to lack of resources, there are hopeful signs of its revival on a reduced scale. In addition, a heavy plate and vessels project and a dry dock are being established at Visakhapatnam and it is expected that a zinc smelter, operating on imported concentrates, will also be set up there. At Hyderabad, the Electronics Corporation of India (of the Atomic Energy Commission) has commenced operations, while a telecommunication cables factory and cement plant are also expected to be established there in the near future.

Along with these significant public sector investments a start has also been made for a healthy private sector industry. Biggest, and in many ways significant, is the Rs 50-crore fertiliser plant at Visakhapatnam which produces a complex fertiliser badly needed by Andhra Pradesh. There has also been an oil refinery in operation for some years at Vizag which bids fair to become a major centre for chemical and plastic industries with the establishment of a styrene monomer and polymer plant there. A second fertiliser plant is also expected to be set up in the near future using imported liquid ammonia in the first instance. At Hyderabad, there has been a wide diversity in the private sector industries—a detonators factory, a dry battery plant, a watch factory, a fruit juice plant besides foundry and pharmaceutical plants. Outside Hyderabad, there has been established a 600-ton a day cement plant at Ramagundam and a barium salt factory at Kothakudem in the mineral belt. In addition, a few textile mills have gone into operation all over the state producing yarn for a large handloom sector.

Identification of Potential Areas

It is obvious from the above that many of the new industries have tended to cluster round a few well-defined locations due to the availability of raw materials and other facilities. In fact, the bulk of the industrial growth in the last 10 years has been confined to practically two towns—Visakhapatnam on the coast and Hyderabad, the capital. The state government recognising the inevitability of such a development has identified specific areas in the state as being suitable for immediate industrial development since all the necessary facilities such as land, water, power and roads have been provided. Besides Vizag and Hyderabad, the government has also identified the Vijayawada-Guntur area (which is a hub of road transportation located in the midst of the fertile delta), the Kothagudem-Ramagundam area in the mineral belt, the Kurnool, Cuddapah canal area (traditionally noted for cotton, oilseeds and groundnut) and the newly developed command area under the massive Nagarjunasagar dam as likely regions for quick industrial development. In all these cases except the last, there have already been established some industries and it is expected that with a little stimulus, these potential 'growth centres' will emerge as major centres of industrial activity. In the case of the Nagarjunasagar area, it is anticipated that the tremendous wave of new prosperity which the dam will produce, will, in turn, generate a demand for a variety of products that industry must satisfy.

Not only have the growth centres been identified but the state government has also a fairly clear picture of the lines on which the new industrial development will proceed. Vizag on the coast is seen largely as a chemical and metallurgical centre; certainly the establishment of a steel plant there will generate new structural industries round it while a naphtha (or crude) cracking unit will lead to a petrochemical complex. In addition, a salt and marine chemical industry is expected to grow round the salt manufacture traditionally prevalent in the area. Vijayawada is expected to be the centre of a light engineering industry including automobile ancillaries as well as chemical units, such as pesticides that have a bearing on agriculture. In fact, a vast area has been demarcated as "Auto-nagar" to provide extensive servicing and manufacturing facilities to the thousands of tractors and lorries that stream into Vijayawada. Hyderabad will continue to host a variety of industries; although the bulk of them will be in the engineering field, chemicals, pharmaceuticals and electronics have figured prominently in the list of new industries. At Kothagudem and Ramagundam the emphasis will be largely on a metallurgical complex such as pig iron and alloy steel although a major fertiliser plant based on coal is also not ruled out.

In the command area of the Nagarjunasagar dam, the trend of industrial development, will be either the inputs required for agriculture or the processing of agricultural raw materials. Thus tractors, agricultural implements and other agricultural machinery will find a logical location there as also processing plants for sugar, solvent extraction, cattle feed

and vanaspati. In the Kurnool-Cuddapah canal area also the emphasis will be on processing industries that utilise cotton and oilseeds as raw material although cement plants utilising limestone and asbestos will also be feasible. Further, sugarcane is also grown in the area leading to manufacture of sugar and other industries using its by-products.

The state government has for some years been acquiring land at Vizag and Hyderabad to make available to new industries in the private sector at nominal cost. There has also been an extensive power development programme to make power available at reasonable rates. Major water producing schemes have been taken up at Hyderabad and Vizag to provide water for new industries but the tempo of growth at both these places has been so great that by the time they are completed, the industrial demand for water would again exceed supply. The state government is therefore actively considering new schemes including such revolutionary projects as pumping the water of the River Godavari to Vizag- a distance of more than 120 miles—involving a capital outlay of Rs 18 crores.

Incentives Provided

The new "package" programme of incentives provides for refund of sales tax on raw materials, machinery and finished goods (subject to a maximum of 10 per cent of equity capital) and of subsidy on power by as much as 12½ per cent in the case of small industries and 10 per cent in the case of large industries. Exemption from payment of water rate on water utilised from 'natural' sources is also proposed to be given while in the case of 'government-maintained' sources, only the water actually used will be charged. There will be no additional liability in respect of land revenue or tax except what prevailed before the industry was established.

In fact, one of the important assets for industrialisation in Andhra Pradesh is a well developed network of state-owned institutions which has been set up some years back to assist new industries being established in the state. The State Financial Corporation (jointly owned by the state government, the Reserve Bank and commercial banks) has been in operation for more than 12 years and provides liberal assistance in the shape of loans to small and medium industries besides underwriting new issues and providing guarantees for deferred payments. It has so far sanctioned for this purpose Rs 15.80 crores to more than 100 industries covering a variety of products. The Andhra Pradesh Industrial Development Corporation is the main agency for providing (or underwriting) equity capital to large industries and has so far sanctioned about Rs 6.5 crores to more than 50 industries whose total capital outlay is about Rs 70 crores.

The development of small industries—which constitute the bulk of the industrial establishments both in number and labour employed—is done mainly through the establishment of industrial estates. Eleven estates have been set up all over the state where developed land and constructed factory sheds are made available to prospective industrialists on a subsidised rent basis for the first five years. Since it was recognised that in most cases developed land with the necessary facilities would be more suitable, the state government has also set up 23 assisted estates throughout the state. In addition, there is a co-operative industrial estate at Hyderabad to which the state government has contributed 40 per cent of the equity capital.

More important perhaps than incentives or institutions, is that indefinable, intangible, but none the less real, prerequisite which may broadly be classified as the "climate" for new investment. It is hard to specify precisely the ingredients for a favourable climate but one may mention a stable political framework, a progressive administration, a team of able officials and most important of all, the availability of skilled labour which is disciplined and productive. Andhra Pradesh is fortunate that it has all these ingredients in a good measure; taken in totality, the state is bound to score high in any objective rating of a favourable atmosphere for industrial development.

A Technocrat's Report

S. P. CHOPRA

THE NEW chairman of the State Trading Corporation, Mr P. L. Tandon, has started putting into pract.ce some of the suggestions contained in the interim report of the government committee of which he was the chairman and which was set up in April last year to review the working of this public sector enterprise. The committee had drawn special attention to the need for improving the operational efficiency of the STC, particularly renovation of the accounting system and "building through management accounting a system of accountability". It was also suggested that "there should be regular reporting and performance budgeting, where a detailed statement of intentions, translated into resources needed, is prepared for the next year, showing plans and estimates of sales, expenditure, cash, and manpower; against these estimates, progress should be evaluated and communicated week by week, month by month and for the year with a mid-year review to decide whether the year's operating plan needs a revision". The report for the quarter ending December, 1968, shows that Mr Tandon has acquired a grip over the working of the STC and shown some success in placing its working operations on a rational basis. He is now examining the working of the STC week after week and month after month from all possible angles in an effort to cut overhead expenditure, reduce stocks and make economical use of funds.

The sales of the STC for the period April-December, 1968, showed a marginal decline of two per cent as compared to the performance in the corresponding period in the preceding year (on pro rata basis) mostly because of the sharp fall in imports. Whereas its exports rose by 74 per cent and domestic operations by 135 per cent, imports fell by 18 per cent with the net effect of a loss of two per cent in total sales. While the bill for imports for the country as a whole is on the decline and it is but natural that the activities of the STC should also be affected by this trend, the profitability has been naturally affected in a marked manner since the STC makes money on imports but incurs losses on some of its exports. The profit after tax at Rs 1.13 crores registered a drop of 26 per cent in relation to the pro rata profit of Rs 1.53 crores in the corresponding period last year.

Improved Performance

Two features of its latest working results point to improved performance of the corporation in the coming months. First, the STC has almost frozen the level of expenditure on overheads. The overhead expenditure in the period April-November, 1968, was 98 per cent of the expenditure in the corresponding period in 1967. The increase in expenditure on salaries and allowances by 16 per cent was due to the rise in dearness allowance and increments but not due to any increase in the working force. The manpower of the STC recorded a small fall in the quarter under review. Second, the STC has achieved a substantial reduction in stocks. On October 1, 1968, the STC had locked up Rs 15.67 crores in inventories but by the end of 1968, the level of stocks had been brought down to Rs 9.57 crores. The effect of this reduction in stocks will be felt in the working results of the next quarter.

Both these factors have however changed the relationship among overheads, sales, stocks and capital employed. As the table alongside shows, the ratio of overheads to sales has been frozen at the previous year's level. The ratio of stocks to sales has dropped appreciably from 28.9 per cent to 22.8 per cent while the ratio of capital employed to sales fell from 27.4 per cent to 23.04 per cent. The effect of speedy recovery from debtors is evident from the drop in the ratio of debtor to sales. In short, all these ratios clearly show that the STC is no longer working in a blind alley. The management is now aware of the trend of its working results and the procedure of quick accounting is likely to assist it in charting out its future course of action.

The exports of the STC for the period April-December, 1968, have attained a new peak at Rs 29.83 crores. In 1967-68, the value of exports was no more than Rs 23.57 crores. South Korea is the biggest market of the STC, its sales in the period under review of mostly railway wagons and human hair being Rs 8.18 crores. The USSR occupies the second rank with exports at Rs 5.24 crores while Poland's rank is third with exports valued at Rs 2.06 crores. The east European countries (popularly known as the rupee payment countries) including the USSR accounted for exports worth Rs 10.46 crores —35 per cent of the total. The STC, it may be recalled, was meant initially for trading with the socialist countries but now the share of these countries has shrunk to one-third of the total trade of this enterprise. The commodity-wise distribution of STC's exports shows that railway wagons top the list followed by human hair (and products), cotton textiles, jute goods, shoes, pulses, artificial fabrics, dried fish, cotton packs, salt, tobacco, opium, cotton shirts, and a number of other commodities in small quantities. The list seems to admit of considerable amplification.

Narrow Base

The capital structure of the STC has a narrow equity base. Out of the total capital employed of Rs 32.86 crores, the paid-up capital is no more than two crores of rupees. The reserves at Rs 9.61 crores are nearly five times the equity capital. The STC therefore proposes to capitalise two crores of rupees. The profit earned during the first half of the current financial year has encouraged the management to recommend a dividend rate of 15 per cent on the enhanced capital. It means that the STC will double its contribution to the central exchequer.

Streamlining of the expenditure procedure of the STC has involved devising of new travelling allowance bill forms with precise instructions for officers in the various cadres. The objective behind all these changes is to induce cost consciousness. Once the officers start showing increased respect for costs, the affairs of the enterprise cannot but improve. The only aspect about which not much information is being divulged is that of changes in management. The chairman, it seems, is already applying his mind to this aspect but is naturally inclined to be cautious and circumspect.

SOME RATIOS

	Last year on 1st April per cent	This year on 1st December per cent
Overheads to sales	2.7	2.7
Stocks to sales	28.9	22.8
Debtors to sales	23.5	21.4
Capital employed to sales	27.4	23.04

WINDOW ON THE WORLD

Europe's West-East Trade

JOSSLEYN HENNESSY

I

MORE ECONOMICS—LESS POLITICS

LONDON:

THE SOVIET invasion of Czechoslovakia has led to a reassessment of east-west trade relations. The traditional view was that the Soviet bloc's trade policy was designed primarily to serve political ends. Certainly, the bloc's trade with western Europe, as the rest of the non-communist world, has been so small, both relatively and absolutely that it scarcely affected the bloc's self-sufficiency, but recent developments suggest that the foreign trade of eastern Europe and the USSR has now begun to serve economic rather than political ends. Basically, its new purpose is to upgrade technological and quantitative standards and to fill gaps in the bloc's own resources.

In the present pause in the east-west political detente, this change in the function of foreign trade, as viewed from the USSR and eastern Europe, is important. Since trade is no longer to be primarily for political reasons, the pattern and volume between western Europe and the Soviet bloc will in future not depend so closely on short-term fluctuations in east-west political relations.

The New Phase

The course of events since the Czechoslovak crisis confirms that the return to near-cold war conditions need not necessarily end trade relations, which henceforth are likely to be governed by commercial criteria. The immediate reaction in the west was vehement protest, modified by the impossibility of taking any concrete action. By September, however, it was clear that the USSR and its Warsaw Pact supporters were anxious for normal relations, political and economic, with the west, regardless of criticism over Czechoslovakia. In western Europe, it also became clear that, with few exceptions, business was to be "as usual". Business at the Leipzig and Brno trade fairs was normal and the volume was close to expectations formed before the invasion of Czechoslovakia. The new phase in trade relations between eastern and western Europe emerges clearly from the trade statistics, and its continuance seems assured by the reorientation of economic planning policies in the Soviet bloc.

Probably the most significant feature of the foreign trade of the countries of eastern Europe and the USSR, since my last review of east-west trade (see Aug. 2, 1968) was the relative stagnation in 1966 of intra-Comecon transactions and and the rapid expansion of trade with western Europe. Partial exceptions were Bulgaria and East Germany, which both registered marked increases in their trade with fellow members of Comecon. In 1966, the latest year for which detailed statistics are available, exports from the USSR and the countries of eastern Europe to western Europe grew by 15.2 per cent, imports by 15.3 per cent compared with average increases for the period 1961-66 of 10.6 and 9.9 per cent respectively. The comparable figures for intra-Comecon exports were a fall of 2.2 per cent in members' exports to the USSR in 1966 and a mere 0.8 per cent rise for the other east European countries; the 1961-66 averages were 8.0 and 6.6 per cent respectively. For intra-bloc imports in 1966, there was a rise of 5.5 per cent for the USSR and a fall of 1.4 per cent for the rest of eastern Europe; the 1961-66 averages in this case were 7.7 and 7.5 per cent.

Provisional data for 1967 indicate that trade with western Europe continued its rapid growth, and intra-Comecon trade picked up sharply.

TRADE OF THE U.S.S.R. AND EASTERN EUROPE

$ million

	1965		1966		1967(a)	
	Exports	Imports	Exports	Imports	Exports	Imports
Total trade	20,009	19,743	21,221	20,703	23,232	22,237
Intra-Comecon trade	13,371	13,447	14,055	13,736	15,532	14,637

(a) Estimates. Source: 'Economist' Intelligence Unit.

Of various factors which led to the relative stagnation of intra-Comecon trade in 1966, the most important was that the prices of some important commodities were lowered from January 1, 1966. This automatically reduced the value of intra-bloc trade in 1966, though it did not affect the volume of transactions. The purpose of this change was to match Comecon prices with those of the international free market in 1960-64 instead of 1957-58 prices as before. This shift closer to world prices was, however, by no means right across the board, and Comecon "contractual" prices continued for many products.

Another factor which led to the sharp slow-down in intra-bloc trade in 1966 was the temporary dislocation caused by the introduction of Comecon agreements on specialisation of production and trade within the bloc which proved difficult to achieve in practice. That 1966 was also the first year of a new five-year planning period in which radical reforms in planning and management were being set in motion did not help trade exchanges.

By 1967, these effects had largely worked through and there was a spurt in trade between Comecon members. It was notable, however, that this did not entail any fall in trade with western Europe, which continued to grow.

II

WEST-EAST GOVERNMENTS COLLABORATE

The shift towards more rapid expansion in east-west trade has been accompanied by, and has in part followed from, a new pattern of closer, more flexible liaison between the governments of the major trading partners in the east and in the west. France, the UK, West Germany, Italy, and the Benelux countries have all concluded trade and technical co-operation agreements with various countries of eastern Europe, including the USSR, Poland, Rumania and Hungary. As well as covering ordinary trade exchanges, some of new agreements concern more general economic, industrial, and technical co-operation, and provide standing arrangements to examine new trading possibilities. It is already clear that co-production and allied agreements are to be a strong growth sector of east-west trade and economic relationships in the years ahead.

Meanwhile, the countries of western Europe have continued the gradual liberalisation of imports from the eastern bloc. An example was France's increase in liberalised imports from the Soviet bloc by around 200 items in January, 1967, ranging from some farm products to consumer durables. Italy, West

Germany, and the Benelux countries also made similar moves.

Though the pattern of western Europe's trade with the eastern bloc has many features in common for each of the countries of the east, there are nevertheless differences from country to country in both the rate of growth of trade with western Europe and its commodity composition.

WESTERN EUROPE'S TRADE WITH EASTERN EUROPE
($ million at current prices)

	Western Europe's exports		Western Europe's imports	
	1965	1966	1965	1966
Food, beverages, tobacco oil seeds, fats & oils	509.6	486.1	803.3	926.6
of which:				
animal products	108.1	51.8	377.5	481.3
cereals & preparations	142.8	159.9	95.9	47.7
fruit, vegetables	—	—	—	—
beverages, tobacco	160.2	185.6	169.4	187.1
Crude materials, fuels & base materials	793.7	800.5	2,135.6	2,357.7
of which:				
forest products	113.4	108.7	569.6	540.8
agricultural materials	189.0	190.3	176.6	215.0
mineral fuels	11.8	9.4	728.4	811.2
base metals	406.1	416.6	394.7	47.6
Manufactures	1,923.0	2,356.2	772.5	894.6
of which:				
machinery	870.6	1,170.4	276.4	346.0
ships	233:7	225.9	18.2	15.2
chemicals	385.1	442.7	173.8	207.9
Total (including others)	3,308.9	3,733.8	3,804.6	4,294.5

Source: 'Economist' Intelligence Unit.

Changes in the commodity composition of east-west trade over the years up to 1964, have mostly been in line with the new Comecon policies of buying high-technology goods and relatively sophisticated consumer items from western Europe in order to raise production standards in eastern Europe and the USSR. As well as an increase both absolutely and relatively in western Europe's sales to the eastern bloc of manufactured goods, principally machinery, there was an absolute and relative decline in western exports of foodstuffs and only a small increase in sales of industrial materials. The eastern bloc's exports to western Europe since 1964 have continued to be largely foodstuffs and industrial materials, though there have been continued efforts to develop sales of manufactured goods by matching products to west European market requirements.

III
THE EAST BLOC COUNTRIES

The U.S.S.R.

Though in absolute terms the USSR is the main market in Comecon for west European suppliers, trade with western Europe is relatively less important to the USSR than to any other bloc country, but it is also true that trade with other communist countries accounts for a smaller proportion of total Russian trade than in the case of any other Comecon country except Rumania.

Assessments of the future pattern of Soviet trade with western Europe are complicated by apparent confusion in the USSR over allocating economic priorities. The original five-year plan for 1966-70 appeared to concentrate on increasing supplies of consumer goods, and less on output of heavy industry. It is now clear, however, that the 1966-70 plan has in effect been abandoned, and that the drive towards consumer goods and light industry is being modified in favour of increased defence expenditures.

Nevertheless, the mere fact that real income per head is increasing in line with the target rate of 5.4 per cent a year will necessitate heavy imports of consumer goods from western Europe. Foreign exchange should be fairly readily available for this because the grain harvests in the three years to 1968 were good, and consequently grain imports will decline.

The big transactions, however, concern sales of complete plant or major sub-units, which usually also involve sales of expertise, frequently by licence agreements. The bigger contracts of this type involve sub-contracting parts of the project among several west European countries. An example is the contract with Fiat of Italy to build an automobile works with sub-contracts to British machine tool manufacturers.

Poland

Poland, the second largest Comecon market for suppliers in western Europe, is carrying out economic reforms that decentralise many economic decisions down to enterprise level, and increase specialisation and greater use of material incentives. Together with these developments there is proportionately greater allocation of resources to consumer goods and agriculture and less to producer goods. The targets of the 1966-70 five-year plan show that Poland is going through a transitional phase, and the growth rate for industry as a whole has been lowered from the rate set in the 1961-65 plan. There is currently less stress than before on quantitative achievement as such, and greater emphasis on rationalisation, modernisation and upgrading quality and productivity.

The new orientation of Poland's official economic policy creates major opportunities for west European suppliers of plant, machinery and equipment with a high technological content. In Poland, as elsewhere in the Soviet bloc, an important subsidiary aim of the economic reforms is to improve the competitiveness of home-produced manufactured goods in western markets, which will gradually generate new foreign exchange earnings for an escalation of east-west trade. There are already some results: Polish exports of machine tools to West Germany doubled in 1966 and rose sharply in 1967.

Czechoslovakia

It is difficult to forecast Czechoslovakia's economic future until the internal political scene clears. The departure of Dr Ota Sik, the architect of most of the economic reforms in train before the invasion, suggests that they are to be considerably modified. In particular, the intention to increase trade and economic relations with western Europe seems certain to go by the board; this, from the viewpoint of

EASTERN EUROPE AND THE U.S.S.R.: THE REGIONAL PATTERN OF TRADE, 1966

	Export destinations			Import sources		
	Eastern bloc	Western Europe	Other	Eastern bloc	Western Europe	Other
USSR	53.1	19.2	27.7	56.4	16.4	27.2
Poland	55.8	29.5	14.7	60.0	26.9	13.1
Czechoslovakia	63.6	19.9	16.5	64.1	21.2	14.7
Rumania	55.9	30.3	13.8	52.7	35.6	11.7
East Germany	68.7	22.2	9.1	67.3	24.9	7.8
Hungary	64.2	26.9	8.9	61.3	27.7	11.0
Bulgaria	—	—	—	—	—	—

Source: 'Economist' Intelligence Unit.

traders in western Europe, will, however, represent a loss of potential rather than radical change. In 1966, only 21.2 per cent of Czechoslovakia's imports and 19.9 per cent of its exports were with western Europe, much lower proportions than for any other eastern bloc country except the USSR. If Czechoslovakia's economy is not to grind along in low gear, heavy imports of plant and the equipment to restructure industry will be necessary: over 40 per cent of all machinery and equipment currently in use is officially regarded as obsolete. It remains to be seen how much importing from the west the USSR will allow.

Czechoslovakia's earlier aim to seek major credits in the west is now probably irrelevant, and its existing surplus of up to the equivalent of $300 million in non-convertible Comecon currencies is of little use, since the type of imports required to get the economy rolling forward are not readily available within the bloc. One solution could be a Soviet loan in gold or convertible currencies to be spent largely on purchases in the west. At present, however, Czechoslovakia's present leaders are reluctant to make the political concessions that the USSR requires as the price of this kind of aid.

Rumania Turns to the West

The feature of Rumania's trade has been the sharp contraction in the proportion of the total carried on with eastern bloc countries; for imports the percentage share fell from 62.6 in 1961 to 52.7 in 1966 and preliminary figures indicate a further sharp decline in 1967 to 47 per cent. Imports from western Europe have increased correspondingly from 28.7 per cent of the total in 1961 to 35.6 per cent in 1966, and there was a sharp increase in 1967 to around 40 per cent. These developments follow the officially declared intention to increase trade with western Europe more rapidly than with the eastern bloc, and are in line with Rumania's independent attitude towards the USSR.

Since industry contributes only about 50 per cent of total output, Rumania's current aim is to boost industrialisation by keeping consumption low and investment high and by ploughing back the greater part of national income, and offering few material incentives, so far at any rate, to the workers.

As long as this is so, the scope for increased trade with western Europe is enormous. The 1966-70 five-year plan provides for a 55 per cent increase in foreign trade turnover, and Rumania's comparative reluctance to increase economic ties with eastern bloc countries means that trade with western Europe could double. The opportunities lie in power plants, engineering metallurgy, and chemicals.

Reports that Rumania is again examining the possibility of joining the International Monetary Fund imply the extent to which she is anxious to collaborate with the west. It remains to be seen, however, whether the increased tension with the USSR will compel Rumania to modify her policy of independence.

East Germany

East Germany's foreign trade is heavily orientated towards the eastern bloc, with which 68.7 per cent of exports and 67.3 per cent of imports are transacted. But the low share of East Germany's total foreign trade with the developing countries means that the proportions of export and import trade with western Europe, at 22.2 per cent respectively, are by no means the smallest among Comecon members.

Sources and Acknowledgements: This review of east-west trade has, by special arrangement, been summarised from an exclusive report in the latest quarterly issue of "Economic Trends", published to subscribers only by the 'Economist' Intelligence Unit, 27 St. James's Place, London S.W.1., but the EIU is responsible neither for the emphasis of my summary nor for my comments.

China's Foreign Economic Relations

A. NEKRASOV

FOREIGN ECONOMIC relations continue to play an important part in China's economic life. Since the revolution their importance to the development of the productive forces, the acceleration of scientific-technological porgress and a rise in the efficiency of all social production has increased significantly.

During the 'fifties the main trend in Chinese foreign economic policy was to consolidate mutually advantageous co-operation with the socialist countries, which gave the Chinese people tremendous assistance in economic restoration and development. With their help China established modern industries and laid the foundation of socialist industrialization. From two-thirds to three-fourths of China's foreign trade in that period was with the socialist countries. From the socialist countries China received the machinery, equipment and industrial raw materials she needed to accelerate industrial development. At the same time, the socialist countries provided China with a big market for her goods, which helped the growth of export potential of China's economy, solve the problem of employment, increase the incomes for her population and stimulate a rise in the productivity of social labour.

In the 'fifties the socialist countries supplied China with more than 2,500 million roubles' worth of equipment for plants, helped to build and put into operation more than 350 big factories and other enterprises and a large number of shops and installations and handed over licences for the manufacture of many types of goods without compensation. Scientific-technological co-operation with the socialist countries helped China to develop science and education and to train a large army of highly qualified experts for the major branches of her economy. China received particularly large assistance from the USSR, which gave her 1,816 million roubles' worth of long-term credits on favourable terms and technical assistance in building 256 large modern enterprises. The industrial enterprises built with Soviet help now account for the main share of the goods put out by the leading branches of China's heavy industry.

According to Chinese economists, the country's exports in the 'fifties amounted to about four per cent of the gross industrial and agricultural product. Although this proportion is lower in China than in a number of other socialist countries, it would be wrong to underestimate the role of foreign trade in the Chinese economy. Foreign trade to a significant degree enabled the Chinese People's Republic to solve rapidly the urgent task of raising the scientific-technological level of production and the efficiency of the entire economy.

Practical Approach

At the beginning of the 'fifties the leaders of the Chinese Communist Party understood the importance to China's development of economic co-operation with the socialist countries. That was reflected in the adoption in 1953 of a basic policy aimed at turning China into an advanced industrial power in the course of several five-year plan periods. The Chinese leaders were guided then by the need to use the practical and theoretical experience of the socialist countries, taking into account China's specific features in the development of foreign trade relations. Planned development of the Chinese economy in the 'fifties created the material base on which to expand foreign trade and enhance its role in economic development China's volume of foreign trade quadrupled in that period, outstripping the growth rate of the gross product, and in 1959 reached its peak at 3,800 million roubles.

In the late 'fifties and early 'sixties the Peking leaders suddenly suspended mutually advantageous economic co-operation with the other socialist countries, evidently believing that it was no longer in their interest. Having decided that the economic base in the country was strong enough to enable them to carry out their hegemony, the Peking leaders took the path of reckless ventures, among which expansion of foreign economic relations was assigned a big part. They soon came to realise, however, that these far-reaching plans were built on sand. China's foreign trade dropped by 36 per cent between 1960 and 1962. By 1966 it has risen somewhat higher than the 1959 level.

FOREIGN TRADE OF THE CHINESE PEOPLE'S REPUBLIC

Million roubles

	1957	1959	1960	1962	1965	1966	1967*
Total Turnover	2,750	3,757	3,606	2,411	3,601	3,952	3,776
Exports	1,506	1,956	1,868	1,437	1,969	2,207	2,008
Imports	1,244	1,801	1,738	974	1,632	1,745	1,768

Estimated on the basis of statistics from China's trading partners.

* Preliminary estimate.

The pattern of China's foreign trade has also undergone substantial changes. It has reflected the grave economic difficulties caused by the policy of the Mao group. The drop in production has led to a drop in the export of China's main and traditional goods, which played an important role in the world market. The adoption in 1961 of the policy of "regulating" the national economy, following the failures of the "big leap," the acute shortage of food, raw materials and consumer goods, and the practical abandonment of industrialization plans all called for substantial changes.

Raw Material Imports

The share of machinery and equipment fell from 42 per cent of imports in 1960 to 19 per cent in 1965. The main place in imports came to be held by grain, raw materials and materials for the light industry and agriculture.

The "cultural revolution" dealt China's foreign trade relations another blow. Its disorganizing effect on the economy, especially on transport and industry, led to at least 15 to 20 per cent drop in the volume of production in 1967. That immediately affected the country's trade pattern and trade and payment balances. Preliminary estimates indicate that China's volume of foreign trade dropped by 4.5 per cent in 1967, the drop in exports being 10 per cent. Like the entire economy, foreign trade entered a period of increasing chaos and disorganisation.

In an attempt to make a virtue out of necessity, China's leaders have in the past few years subjected the part played by foreign economic relations in the country's economic development to what might be called theoretical revision. Foreign trade and its importance have been assessed from the standpoint of the notorious "theory of undulatory development" which Mao Tse-tung advanced to substantiate the "big leap" policy, in violation of the objective law of planned, national economic development. Wide popularization of this fallacious theory began in China at the second meeting of the Eighth Congress of the Chinese Communist Party in May 1958. The report on the work of the Central Committee of the CCP then declared that "imbalance phenomena are inevitable" and "the appearance of imbalance is not so frightening as complete confusion in the face of imbalance".

According to the "theory of undulatory development" a

socialist economy is supposedly characterised by a movement by leaps, an undulatory growth in which abrupt rises in development rates are replaced from time to time by slumps. During the years of the "big leap" and after its failure propaganda in China was mobilized to substantiate this "law". "An undulatory forward movement is an objective law that does not depend on the subjective will of man," said the newspaper 'Hunming Jihpao'. The magazine 'Tsingtsi Yantsu' declared that "the more undulatory development the better it is for the country's economy" and sharply criticised those Chinese economists who "mistakenly consider the leap of 1958 an abnormal phenomenon that does not conform to objective economic laws."

Applied to foreign economic relations the "theory of undulatory development" meant nothing more than an attempt to justify curtailment of foreign trade and its structural flaws by references to the "objective nature" and "inevitability" of such flaws.

Subordination of Trade

China's leaders actively use foreign economic relations as an important part of their foreign policy. A countrywide conference on foreign trade in April 1966 went even further in subordinating the foreign trade organizations to Peking's political aims. The conference decided "to raise still higher the great banner of the ideology of Mao Tse-tung" and to "fight resolutely against purely professional, apolitical views and a compromise ideology that gives parallel attention to politics and to occupation." The real meaning behind the "political" approach to China's foreign economic relations was clear long before the conference. There had been numerous attempts to interfere in the internal affairs of other countries and to deviate from the generally accepted standards of international trade. They have become much more evident in the period of the "cultural revolution".

Since the early 'sixties the Mao group has openly curtailed co-operation with the socialist countries and the socialist community as a whole.

TRADE OF THE CHINESE PEOPLE'S REPUBLIC WITH SOCIALIST COUNTRIES

million roubles

	1957	1960	1962	1965	1966	1967
Total Turnover	1,765	2,323	1,230	1,108	1,072	864
Exports	973	1,182	799	634	578	504
Imports	792	1,141	431	474	494	360

As a result the share of socialist countries in China's foreign trade dropped from 64 per cent to 22 per cent. Peking's unilateral and sudden curtailment of economic relations with a number of socialist countries was done without any warning, in glaring contradiction to the principles of international law and the standard of relations in the socialist world. The breaking off of long-term economic relations did great damage to China's partners, who were guided by the expectation of stable relations with China. On the other hand, if we remember the role which economic relations between China and the socialist countries played and could play, it is obvious that the current foreign economic policy of the Peking leaders is a severe blow to the basic interests of the Chinese people and the very foundations of the socialist system, especially in view of China's sharply aggravated economic difficulties.

As the Mao group curtails economic relations with the socialist countries it is expanding economic relations with the industrially advanced non-communist countries. Between 1961 and 1967 China's volume of trade with these countries increased almost three times to 1,800 million roubles.

TRADE OF THE CHINESE PEOPLE'S REPUBLIC WITH THE INDUSTRIAL NON-COMMUNIST COUNTRIES

million roubles

	1957	1960	1962	1965	1966	1967
Total Turnover	474	658	607	1,324	1,619	1,782
Exports	202	270	224	545	680	638
Imports	272	388	383	779	939	1,144

China's economic relations with the industrially advanced non-communist countries have gone far beyond merely trade; China accepts credits, technical aid and assistance in training personnel from them. Contracts have been signed for the purchase of 43 industrial enterprises in those countries. Japan now holds first place in China's foreign trade. In 1967 Japanese-Chinese trade amounted to 500 million roubles, against 21 million roubles in 1960. The Peking leaders are fast developing economic relations with the Federal Republic of Germany. West Germany now holds the first place among the west European countries in trade with China. In 1967 trade between China and West Germany totalled 255 million roubles. This is six times greater than the volume of China's trade with East Germany. Western Germany has sanctioned the sale to China of some types of armaments and instruments belonging to the category of strategic materials. Technical experts from West Germany are already working in the Chinese People's Republic. Economic relations between China and Britain, France, Italy and other European powers have expanded considerably during the 'sixties. Hong Kong, a British colony, is an important channel by which China establishes economic relations with the industrially advanced world. In 1966, China's volume of trade with Hong Kong was estimated at 465 million roubles, of which Chinese exports amounted to 454 million roubles.

The foreign economic policy of the Chinese People's Republic as regards the newly independent countries is also placed completely at the service of the hegemonic goals of Mao Tse-tung and his group.

TRADE OF THE CHINESE PEOPLE'S REPUBLIC WITH THE NEWLY INDEPENDENT COUNTRIES

million roubles

	1957	1960	1962	1965	1966	1967
Total Turnover	334	409	358	777	796	749
Exports	174	219	212	408	495	486
Imports	160	190	146	369	301	263

The independent young countries of Asia and Africa now account for about 20 per cent of China's foreign trade (it was 11 per cent in 1960). Chinese trade with this group of countries increased by 84 per cent between 1961 and 1967. But trade and the economic aid which China has promised the young countries (about one million roubles' worth) are subordinated primarily to political aims.

Approximately two-thirds of China's trade with the developing countries is with those in south and south-east Asia, which Peking regards as the sphere of its primary influence.

China is particularly active in Pakistan, Singapore, Malaysia and Cambodia. Worsened political relations have led her to break off practically all economic relations with India and Burma. In an attempt to put pressure on the Burmese government, which took measures to supress the subversive activity of China's representatives in Burma and attempts to apply "cultural revolution" methods there, the Mao group discontinued economic co-operation with Burma in the summer of 1967.

The African countries account for 20 per cent of China's trade with the "third world." Her biggest trading partners are the United Arab Republic, Morocco and the Sudan. Peking is trying with particular persistence to achieve the economic penetration of Mali, Guinea, Tanzania, Zambia and the Congo (Brazzaville).

The Peking leaders believe in dumping goods to win positions in the markets of the "third world" countries. For instance, there was a period when China was selling textiles, pottery, wire and other goods in Indonesia at prices from 10 to 40 per cent lower than those of the Japanese. In Nepal, Chinese goods sell for half the price of goods from India. China sells Singapore and Malaysia fabrics, clothing, crockery, tinned goods, sugar, cement and drugs at prices that are from 30 to 50 per cent lower than the world prices. Approximately the same thing holds true for Chinese dealings with firms in Tanzania, Kenya, Uganda and other African countries. The Chinese People's Republic loses, according to one estimate, more than 100 million dollars annually through dumping.

Chinese goods, however, do not reach the consumer at a low price. The difference in prices is pocketed by the importers. At the same time, importing a large amount of Chinese consumer and other goods into the young developing countries at low prices creates a real threat to the new national industries. Consequently, some of the developing countries are now taking measures against uncontrolled imports from the Chinese People's Republic. At the same time, the legal and illegal transfer of large sums of money to Peking banks by Chinese emigrants is causing a number of countries in south-east Asia grave concern.

Waiting for Monetary Reforms

E. B. BROOK

VIENNA:

IN ITS urgent affairs of finance Europe has made a halting start to the new year. It had been hoped, injudiciously as it turned out, that the central bankers, at their first meeting of the year at Basle, would find ways of supporting the insecure two-tier system of gold prices and make a new year's gift of a plan to control speculative flows of money from one currency to another.

It is a sign of the concern that these two problems are causing Europe that the bankers should have been expected to do, or begin to do, either; for they did not know what the new US Administration's attitude would be to relaxing the fixed price of gold against the dollar and they had been given no clear political direction by the finance ministers as to how far, if at all, governments would support an official system of controlling currency movements Not until the new outline of US policy has been thoroughly digested will Europe be able to begin to think of ways of adjusting to it; the Common Market will not put forward its ideas about controlling money flows till mid-February (and nothing exciting is expected from that quarter) so it is likely to be April before Europe really begins—if it begins then—to tackle the financial uncertainty that affects it.

Europe's finance ministers have quietly dropped the Italian Carli scheme of recirculating "hot" speculative money back to the currency it came from. Surplus countries, such as West Germany, found it objectionable because they feared they were taking on an open-ended commitment to cover any and every other countries' deficit. A more valid objection to the recirculation scheme lay in the fact that no one has defined what large movement of funds can be regarded as justified by commercial prudence and what is really a gambling speculative movement to profit by a crisis of confidence. But by this time, after nearly two years of recurrent crises, the Bank for International Settlements has had sufficient experience of the many types of "hot money" transfer to be able to recognize and correct immediately under the Carli recirculation plan money movements made solely for a quick profit.

In methods to defeat or check speculation Europe is now back to square one, with the bankers asking for clearer instructions. This means not only delay but danger, for Europe is wide open to speculation. The recent rise in the price of gold was fairly obviously caused by speculators seeking to make a quick profit before Mr Nixon declared his Administration's stand on the two-tier price of that metal.

The sickness of Europe at the moment is the lack of political courage to take risks in supporting a system that controls firmly the movement of money or an overwhelming sale of money against precious metal. No country can be expected to take on obligations automatically to cover the financial misfortunes of others. But surplus countries cannot withhold their contribution to financial stability if the health of the international monetary system is to be restored. An over-valued currency is as dangerous to stability as one in deficit—both are out of balance. But it is more difficult to persuade the over-valued, such as the Deutschmark and the French franc, to change than it is to induce a deficit country to take fairly drastic action to put itself right.

Refusal to Face Facts

The ill health of Europe in finance is not that this or that currency is too high in comparative value or too low but that governments anxiously clutch at the slightest evidence of confidence such as the absence of a crisis, to avoid taking necessary action and that they refuse to realize how suddenly a storm can blow up and how difficult it is to persuade all to help prop a currency until it is almost on the point of collapse.

Because of this anxiety to clutch at the straw of a lull in the markets and to hope for the best instead of taking timely action it was not surprising that the Common Market's finance ministers also contented themselves with proclaiming the necessity for closer co-operation of national economic policies and objectives but announced no actions to bring this co-operation into effect.

Europe's financial controllers have begun the year by marking time and, in so far as they have reacted at all, by reacting negatively to any parity changes or money market controls. Their general sense of ease and euphoria may have continued the year-end's restful sentiments into the new working year but a good deal more will be needed of them in 1969 if it is to be a more reassuring year than its forerunner.

Europe's monetary system is in need of major reforms and of measures that will restore confidence, long since absent, that exchange parities can be maintained without excessive deflation or recourse to a series of protectionist measures.

Polish Seamanship

W. SPYLA

POLAND'S ANCIENT territories along the Odra river and on the Baltic Sea returned to Poland after World War II. The war had brought about immense destruction of such ports as Gdynia, Gdansk and Szczecin. The German troops had mined and blocked with sunken ships the entrances to the ports, while port facilities and installations were either destroyed or taken away by the occupant. All shipyards were destroyed almost completely. The fishing industry was non-existent. Poland had to establish its maritime economy afresh.

LOADING AND DISCHARGING OF CARGO IN POLISH PORTS

million tons

	1950	1966	1967
Gdansk	5.2	6.6	7.5
Gdynia	4.9	8.7	8.8
Szczecin	5.5	11.6	11.9

The port of Szczecin is the biggest port within the Baltic sea basin in regard to handling of cargo. Every third ton of goods imported and exported by Poland is handled by the sea ports. Every year Poland also handles about five million tons of goods in transit. In 1950 there were 163 cranes in the ports; their number rose to 356 in 1967. Bulk cargoes—coal, iron ore, grain—constitute the largest share of goods handled by the Polish ports. The handling of general cargo goods continues to increase every year. In 1950, the ports handled 1.58 million tons of general cargo goods; in 1967, its volume had increased to 6.70 million tons.

The Polish merchant fleet in 1967 consisted of 221 vessels with total carrying capacity of 1.53 million deadweight tons (991,000 gross weight tons). Vessels of two Polish shipping companies—The Polish Ocean Lines and the Polish Steamship Company—have regular runs on 21 shipping lines linking Poland with the important ports of Europe, Africa, Asia, North and Latin America and Australia.

In 1945 Poland started from scratch. Now the Polish merchant fleet ranks 20th in the world. Over 65 per cent of its vessels have been in operation for less than 10 years. Several new ships are added each year. The overall cargo carried by ships of the Polish merchant fleet in 1967 came to 13.6 million tons

DEVELOPMENT OF POLISH MERCHANT FLEET

Year	No. of ships	Deadweight thousand tons
1950	52	231.3
1960	138	826.8
1966	205	1,437.4
1967	221	1,534.0

The Polish shipbuilding industry now ranks 10th in the world. As regards the production of fishing vessels its rank is second; Japan holds the first position.

Shipbuilding in Poland was initiated only in 1948 when the first ocean-going vessel was launched by the Gdansk shipyards. The shipyards in Gdynia launched their first vessel in 1951 and the Szczecin shipyards in 1952. In 1966 Polish shipyards constructed 51 vessels with an overall capacity of 391,000 DWT. In 1967 Polish shipyards constructed 59 various types of vessels—general cargo, bulk cargo ships, timber carriers, factory trawlers, industrial fish factory ships and others—with the overall carrying capacity of 451,000 DWT. More than 70 per cent of the overall production of Polish shipyards is exported. Importers of the Polish ships include the USSR, Norway, Brazil, France, Switzerland, Cuba, Czechoslovakia, the UK, Indonesia, the Chinese People's Republic and the United Arab Republic.

The biggest shipyard in Poland and one of the biggest in the world is the Gdansk shipyards. From 1948 till the middle of 1967, it had built 442 ships with carrying capacity of about 2 million DWT. No less than 336 ships with the total capacity at 1.7 million tons were exported.

The shipbuilding industry in Poland now employs over 40,000 persons out of which about 18,000 are employed in the Gdansk shipyards.

During the post-war period the sea fishing industry has developed in a dynamic way and has been one of the important branches of Poland's national economy. Thanks to the production potential of the Polish shipbuilding industry, the state-owned and co-operative fish companies have been provided with modern fishing vessels. In 1945 the sea fishing enterprises had at their disposal three cutters and 960 row-boats. In 1967, the fishing flotilla consisted of 684 floating units, including 22 factory trawlers, 16 refrigerator trawlers, 116 regular trawlers and 536 cutters. The sea fishing enterprises have now 13 ports for fishing, namely, Gdynia, Szczecin, Swinoujscie, Wladyslawowo, Lebo, Ustka, Kolobrzeg, Dziwnow, Gorki Wschednie, Gorki Zachodnie, Jastarnia and Hel. The catch in 1950 amounted to 65,000 tons of fish and in 1967, 330,000 tons.

Apart from the fisheries in the Baltic sea, the Polish sea fishing enterprises have extended their operations to the North Sea, seas off Iceland, New Foundland and Labrador as well as the Atlantic off West African shores.

"Impossible ! Even the cabinet consists of rival union leaders."

The moving finger writes

ANNADURAI WAS the child of a movement of political and social protest. His distinction was that he refused to be its creature and elected to be a creator in his own right. He was an educated person in terms of all that this description would imply for background, training, temperament and character. 'The Hindustan Times' has justly praised him for the infinite patience and tact (and, let me add, political skill) with which he weaned his followers in the DMK (who had been nurtured in the bigotry of the DK) from the sterile politics of an anti-Brahmin crusade which had become historically irrelevant and a secessionist separatism which had always been meaningless as much in terms of the genuine needs of the people of Tamil Nadu as of the inexorable logic of the unity of the Indian nation.

Annadurai was 60 at death. But for the wantonness of an untamed disease, he would have had many more years of active political career or public life. All the same, it cannot be said that he died largely unfulfilled either as a person or as a politician. It had been given to him certainly to receive the adoration and the affection of people individually and in the mass, and it is probably true that his essential work was accomplished some time before he became fatally ill.

In any case, there was not much of a promise in his performance as Chief Minister. Annadurai's prowess was in the magic of words—both spoken and written—of which he was a master. His forte was not the running of governments. His capacity for decision-making was uncertain, while his understanding of the machinery of government was half-hearted and inadequate. Annadurai was an idealist to whom an occasion to learn the art of government came too late. The verdict of 'The Times' (London) is a just one: "The DMK's record of office under Annadurai was flamboyant rather than constructive and Annadurai leaves the essential problems of governance and development for a successor to deal with."

At the time of writing, Mr Nedunchezhian seems most likely to be that successor. The Governor has, in fact, called on him, as the senior-most minister, to act as Chief Minister pending the election of a leader by the ruling party. In all probability, Mr Nedunchezhian will be voted to the leadership, possibly without a contest. All the same, the future course of DMK politics need not necessarily be smooth or uneventful. There are, among Mr Nedunchezhian's colleagues, men who are not without their share of ambition and Mr Nedunchezhian himself is surely not the most forceful personality in the present DMK leadership. His chief virtue is his eligibility as a compromise candidate, but this may well be a wearing asset, Mrs Gandhi's example notwithstanding. In any case, there certainly is a robust pretender in the person of Mr Karunanidhi, the restless and ruthless machine-man of the party. Given his reported alliance with Mr S. P. Adityan, who had to give up the speakership of the Madras Assembly because he would not give up active party politics or electioneering in by-elections and who has the unenviable reputation of being the most notorious political adventurer and opportunist the south has seen, interesting and even exciting developments may well be expected before the DMK or the state government settles down to its post-Annadurai phase.

Perhaps, it is not exactly important who eventually manages to hold down the chief ministership. What must be of concern to those who may care for good administration in Tamil Nadu is the generally poor quality of the DMK men in the state legislature. If Annadurai's colleagues were conducting themselves as bereaved orphans at his deathbed, it was, perhaps, not without good reason. To many of them ministership, received as a gift from their leader, has yet to become a legitimate personal qualification.

* *

A team of officials from the External Affairs Ministry, led by Mr T. N. Kaul, Secretary in the Ministry, has gone to Japan for talks and will return after breaking journey at Hongkong, Bangkok and Cambodia's capital, Phnom Penh. Although the discussions in Tokyo are, in a sense, a routine engagement in terms of the agreement between the governments of Japan and India to hold consultative meetings periodically, Mr Kaul himself seems to have gone with expectations which are not exactly modest.

Thanks to the mandarin overlordship of Jawaharlal Nehru and the ubiquitous intermediation of Mr Krishna Menon, for the greater part of the period our country has been independent, the E.A. Ministry's secretariat has been reduced to a status lower than that of back-room boys, namely, the position of water boys. In the short period Lal Bahadur Shastri was Prime Minister, the officials might be said to have come into their own in a way, but the officials or rather the official thus favoured was not of the Ministry of External Affairs. With Mrs Indira Gandhi in the saddle things began to change, principally because her natural limitations conspired to throw her more and more on the wisdom and experience of the officials.

It needed however the coming into South Block of a resourceful and energetic and legitimately ambitious senior civil servant and diplomat such as Mr T. N. Kaul for the possibilities of the changing situation to be explored and exploited. There has been talk lately of initiatives in our foreign policy such as an increase in its responsiveness to openings for settlement with Pakistan or an accession of flexibility to its thinking on China. It may not be fanciful to suggest that Mr Kaul has had a large hand in the setting of these trends. Colleagues who are more familiar with these matters than I am tell me that Mr Kaul has a record to set right, if not a past to live down, in the sense that he is one of those who are supposed to have attempted at one time to oversell Peking to New Delhi. Whether what they say is true or not, the fact remains that, for the first time in all these years, an attempt is being made at top levels of the official hierarchy in the Ministry of External Affairs to think out anew our foreign policy, its problems and needs, without the bureaucrats waiting mindlessly for political directives from above.

What Mr Kaul's ideas on the subject are I do not profess to know, but I do believe that the time has come for an effort to be initiated for a comprehensive concept of an Asian policy for our country. To the extent that our relations with China must necessarily enter into the substance of that policy, we should be ready surely to take another look at our China policy if there is one, or to evolve a China policy if, as is probably the case, our government has none at present. It would be relevant to any such exercise for our government to try to sound the views and reactions of other Asian countries. I suppose that Mr Kaul's talks in Japan—or for that matter in Thailand or Cambodia—would not have left Peking unmentioned.

V.B.

Trade Winds

RELAXATION ON CAPITAL ISSUES

AS A result of a review recently made and on the recommendations of the Advisory Committee on Capital Issue Control, the government notified on February 1, a comprehensive Capital Issues Exemption Order, which stated that the government has retained control only over bonus issues of all companies without any lower exemption limit, as hithertofore, and issues of capital at a premium by public limited companies. Subject to the above, practically all other categories of issue of capital by companies have been exempted from the control. Private limited companies, banking and insurance companies and government companies, except where an offer of shares for subscription by the public is involved, are completely exempted from the control. Public limited companies are exempted from the control so long as they issue capital not exceeding Rs 25 lakhs during a period of 12 months. Public limited companies issuing capital exceeding Rs 25 lakhs during a period of 12 months would be only required to file a statement of their capital issue proposals with the Controller at least 30 days before the date of the proposed offer of capital. If the proposals conform to certain well established financial criteria accepted by commercial circles, the companies concerned are free to issue their capital without having to obtain consent from the Controller.

A few of the important criteria are the observance of the debt-equity ratio of 2:1; the equity preference ratio of 3:1; issue of capital at par; issue of preference shares and debentures carrying rates of dividend and interest respectively not exceeding certain notified limits. These limits have also been notified simultaneously. The limits at present are 9.5 per cent dividend for issues of preference shares and 7.75 per cent interest for issues of debentures. These may be varied from time to time by notifications. For the facility of subscribers to the share capital of a company, a new criterion has been added to the effect that the subscription to the shares, if phased in calls, should be got fully paid-up within a maximum period of five years. This is intended to secure to the prospective subscribers the easy marketability of their shares in the stock market. As suggested further by the Capital Issues Advisory Committee, for the clarification of the general public the last clause of the order specifies the categories of issue of capital requiring prior approval of the Controller.

Mr HOLYOAKE'S VISIT

In a joint communique issued on January 31, at the conclusion of the five-day visit of the New Zealand Prime Minister, Mr Keith Holyoake, to this country, the Prime Ministers of India and New Zealand agreed that this country would soon send to New Zealand a delegation led by the Chairman of the State Trading Corporation for placing the trade relations between the two countries on a firmer basis. New Zealand's interest in the export of milk powder and wool and our desire to step up exports of traditional and non-traditional items, such as steel rails, railway equipment, wagons and transmission line towers were noted.

BULGARIAN PREMIER'S TOUR ENDS

India and Bulgaria have declared their readiness to continue their efforts at extension and consolidation of their relations in all fields. A joint communique, issued on January 27, at the end of the Bulgarian Prime Minister Mr Todor Zhivkov's visit, stated that the two sides considered the agreement on trade and payments for 1969-73, the cultural agreement and the agreement on economic and scientific-technological co-operation as a good basis for further development of their economic and cultural ties. Both sides noted with satisfaction that the friendly relations and co-operation between them had made steady progress on the basis of the principle of full equality and mutual respect and benefit.

WEST GERMAN ASSISTANCE

West Germany has offered to provide assistance to our country in promoting tourist traffic. The offer was made recently when Dr Karl Ehm, Joint Secretary in the German Ministry of Economic Co-operation, and a group of representatives of German travel organisations had talks with the union Minister for Tourism and Civil Aviation, Dr Karan Singh, and officials of the Ministry.

INDO-GERMAN RELATIONS SEMINAR

A three-day seminar on Indo-German relations was organized by the Indian School of International Studies recently in New Delhi. The main object of the seminar was to focus attention on the bilateral relations between India and Germany bearing in mind the past and existing relations between the two countries, their peoples and civilizations, and the future prospects of developing them in an integrated form for the mutual benefit of the two countries, as well as for promoting international stability and world order. It was proposed at the seminar that the questions like the reunification of Germany, our relations with Pakistan and China, nuclear prospects, disarmament, and the solution of other problems which affect them, should all be discussed between the two countries in a frank and purposeful way. The seminar was of the opinion that if this was done, ways and means could be found by which the two countries could pursue their national objectives with full awareness of the security problem of each other and the need of maintaining international peace and stability.

$900 MILLION FROM AID CLUB

This country is expected to ask for a minimum non-project assistance of $900 million for 1969-70 from the Aid India Consortium. This will be in addition to request for adequate provision for debt relief and assistance for some specific projects to be included in the fourth Plan. A preliminary idea of India's external assistance requirements for 1969-70 and the fourth Plan was believed to have been given to Mr Peter Cargil, Director of the South Asia Division of the World Bank recently. Mr Cargil, who came here from Colombo on his way back to Washington, had consultations with Economic Affairs Special Secretary, Mr I. G. Patel and Joint Secretary, Mr C. S. Swaminathan. During his week's stay he also had consultations with various Economic Ministers, the Planning Commission and Deputy Prime Minister, Mr Morarji Desai. It was indicated that the Aid India Consortium would meet in Paris on May 22 to consider India's requirements for the coming financial year.

INDO-CEYLON ECONOMIC CO-OPERATION

The first meeting of the Indo-Ceylon Economic Co-operation Committee (ICECC) was held in Colombo from January 23 to January 26. The team from this country was led by Mr Dinesh Singh, Minister of Commerce. The committee reviewed the past trends relating to mutual trade and recognised that this country would increasingly be in a position to export to Ceylon a wide range of manufactured products including machinery, equipment, engineering and capital goods and chemicals apart from traditional items. Imports from Ceylon could embrace traditional items as well as new agricultural items, industrial raw materials and products of her industry. The increasing role that can be played in the improvement of invisible earnings by a more expanded use of services

such as, tourism, broadcasting and shipping was also emphasised. In the field of industry, it was agreed that there was substantial scope for co-operation between the two countries to their mutual advantage. It was also agreed that a joint sub-committee on industry should set up working groups for each of the following industries, viz., machine tools, fertilisers, building and construction equipment, salt and industries based on salt, agro-based industries, rubber, silica, graphite and coconut and also to undertake on a continuing basis detailed study of industrialisation plans of the two countries with a view to keeping entrepreneurs of India and Ceylon informed of the possibilities that exist for fruitful co-operation in the industrial sector. The second meeting of the committee will be held in India in May 1969.

U.S. LOAN FOR SEARLE

The US government has extended a loan of Rs 80 lakhs to Searle (India) Ltd of Bombay to help it set up a factory to produce contraceptives and some other pharmaceuticals. Mr John P. Lewis, Minister-Director, United States AID mission, signed the loan agreement recently. Mr J. F. Fulford, general manager, signed on behalf of the Bombay firm, which is an affiliate of G. D. Searle and Co. of Chicago, a leading manufacturer of the oral contraceptive, popularly known as 'the pill'. Searle (India) plans to produce and market 2,500,000 monthly cycles of pills every year—a quantity sufficient to meet the needs of 200,000 women. The plant will also produce drugs for relieving muscle tension, emotional tension, and some other illnesses. It is planned to export the major part of the production of these drugs.

M.M.T.C. TO IMPORT METALS

The Minerals and Metals Trading Corporation has the technical and the sales expertise to take over the entire import trade in metals in a manner advantageous to the country. This was stated recently by the Chairman of the MMTC. Referring to the recent announcement of the Commerce Minister about entrusting the entire import trade in industrial raw materials to a government agency, he said that the MMTC was in a position to play its part in such a scheme. He felt that the problems involved in metal imports were of a different nature from other industrial raw materials, and this might have to be considered in formulating the structure of the proposed mammoth import organisation. On the question of manganese exports by the MMTC, he said that these were expected to touch 1.3 million tons in 1969 against 1.17 million tons last year. Contracts for the sale of 600,000 tons had already been finalised, and he hoped to sell another 660,000 tons to Japan when he visits that country shortly. Unfortunately, he added, price-cutting by other manganese-producing nations had depressed the world market, which was suffering from over-production.

EXPORT PRICES FOR TOBACCO

The union government has decided that the minimum export prices of different grades of tobacco for 1969 should be the same as those for 1968. However, as a measure of special assistance for the expeditious export of the accumulated stocks of tobacco from the crops of 1968 and previous years, the minimum export prices of these stocks have been reduced by 20 per cent and 25 per cent respectively.

ELECTRIC LAMPS INDUSTRY

The entire electric lamp industry has been removed from the banned list from April this year. This is being done to help enlarge capacity in all types of lamps, including telephone switch-board lamps. For some time past shortage of electric bulbs and telephone switch-board lamps has been felt in the market. Miniature bulbs, other than those used in miner's caps lamps, medical equipment, aircrafts and auto-head lamps (prefocus types) and railway signalling will, however, continue to be reserved for development in the small-scale sector.

PHOSPHORIC ACID PLANT FOR SINDRI

The Chairman, Fertiliser Corporation of India, signed with Mr Sepulchre of M/s Sepulchre Freres of Belgium, a contract for supply of foreign equipment for a plant of 360-tonne per day of P_2O_5 in acid concentrated at 54 per cent P_2O_5, phosphoric acid to be set up in Sindri for the Sindri rationalisation project. Mr Andre A. Dupont, Trade Commissioner of the Embassy of Belgium, was also present at the time of signing the contract. The cost of the (equipment) contract will be about Rs 151 lakhs. The plant will be designed and engineered by FACT's Engineering & Design Organisation, Cochin, and will be based on the Central Prayan process. The plant is expected to be commissioned in 1971. The completion of the Sindri rationalisation project will enable the Fertiliser Corporation's Sindri unit to produce nearly 350,000 tonnes of triple superphosphate in addition to sufficient gypsum of high quality to solve the plant's current raw material difficulties.

H.M.T. HIRE-PURCHASE SCHEME

The Hindustan Machine Tools has announced a hire-purchase scheme under which the buyer can obtain machines on payment of an advance of 20 per cent plus sales tax. The maximum number of instalments will be 25 and interest will be charged at the rate of 10 per cent. Under the hire-purchase scheme, the hirer will be entitled to development rebate and depreciation. HMT has also announced a rental plan under which the hirer can obtain the HMT machines on a small initial payment plus a monthly rental based on the value of the machine. For example, on the model LB 17-700, costing Rs 23,500, the initial deposit will be Rs 1,762.50 and the monthly rental Rs 587.50. The advantage in the rental scheme is that the hirer can claim 50 per cent of the rent paid as deductible business expenditure for taxation purposes. Again, if the hirer ultimately decided to purchase the machines, he will be entitled to a price reduction.

AIR-INDIA AND I.A. AGREEMENT

Arrangements for carrying the surplus passengers of Indian Airlines by Air-India on its domestic sectors have been finalised. The sectors of the international flights of Air-India which will be utilised for the carriage of the passengers are Delhi-Bombay, Bombay-Calcutta and Bombay-Madras. The seats will be available only in the economy classes. Indian Airlines will be responsible for sale of such accommodation on the basis that the accommodation on Indian Airlines will be sold first and thereafter accommodation available on Air-India will be sold. Till the seats available on Air-India are sold, no one would be put on the waiting list, unless any particular passenger prefers to be wait-listed for a particular Indian Airlines flight. The revenue accruing out of this arrangements will be shared on 55 per cent (Indian Airlines) and 45 per cent (Air-India) basis, with route rights remaining with Indian Airlines.

ADVERTISERS' ASSOCIATION

Mr Ayaz B. Peerbhoy, Managing Director, Marketing Advertising Associates Private Ltd, Bombay, and Mr J. Kurian, General Manager, Advertising and Sales Promotion Company, Calcutta, have been elected President and Vice-President respectively of the Advertising Agencies Association of India for 1969. The following have been elected as the executive committee members: Mr T. S. Raman, Mr J. Mainth a, Mr E. G. A. Bathon, Mr B. K. Sinha, Mr Kailash C. Jain, Mr B. R. Gupta, Mr P. C. Roy, Mr J. Chakravarty, Mr V. K. Lal and Mr Premnarayen Indernarayen.

Company Affairs

BANK OF BARODA

THE DIRECTORS of the Bank of Baroda Ltd have proposed a higher final equity dividend at Rs 5 per share of Rs 50 each for 1968 against Rs 4.50 per share paid for 1967. With the interim dividend of Rs 4 per share, the same as in the previous year, the total dividend for 1968 is Rs 9 per share (18 per cent) against Rs 8.50 per share (17 per cent) for 1967. The interim dividend for 1968 was paid on higher capital and had absorbed Rs 20 lakhs. The final dividend will absorb Rs 25 lakhs. The bank's net profit, after providing for taxation and making other provisions, has been slightly higher at Rs 92.81 lakhs against Rs 92.17 lakhs in the previous year. After bringing in Rs 1.42 lakhs from the previous year, the total amount available for disposal is Rs 94.23 lakhs. The directors have transferred a sum of Rs 18.50 lakhs to the reserve fund and Rs 25 lakhs to special reserve, from which the final dividend will be paid. The amount carried forward is Rs 30.73 lakhs subject to payment of bonus to staff. The bank's deposits increased during the year by 13 per cent from Rs 275 crores to Rs 313 crores, while advances went up by 11 per cent from Rs 176 crores to Rs 196 crores.

AHMEDABAD MANUFACTURING AND CALICO

The directors of the Ahmedabad Manufacturing and Calico Printing Co. Ltd have declared an interim dividend of Rs 7.50 per share for the current year ending March 31, 1969. The proposed interim dividend is payable on a higher equity capital of Rs 4.38 crores as raised by the bonus issue in the ratio of one new share for every three shares held made during the year. For 1967-68 the company had paid an interim dividend of Rs 10 per share on old capital. Thus the total amount of the dividend will be the same as in the previous year. The company had paid a final equity dividend of Rs 11.25 per share for 1967-68 on the increased capital of Rs 4.38 crores.

CROMPTON GREAVES

Crompton Greaves Ltd, a manufacturer of electrical goods in the country, has bagged an export order worth about Rs 30 lakhs for transformers from the Government of Kuwait. The company has secured the export contract in competition with well-known companies from Japan, Italy and several east European countries. This is the largest single export contract for transformers which the country has won so far in the face of fierce international competition. The Ministry of Electricity and Water in Kuwait which negotiated this contract with the company has stipulated tight deliveries in order to achieve the expanding electrification undertaken there. The company recently air-freighted three transformers to Singapore.

ROBERT, McLEAN

The subscription list of Robert, McLean and Company Ltd, for the public issue of 6,000 ten per cent, cumulative redeemable preference shares of Rs 100 each opened on February 6 to close on February 13 or earlier at the discretion of the directors but not earlier than February 8. The new shares are to be issued at par. The holders of 7,700 equity shares of Rs 100 each have also agreed to offer to the public 7,700 shares for sale at par and have constituted the company as their attorney for the sale. This will make a total issue of Rs 13.70 lakhs divided into 6,000 preference shares of Rs 100 each and 7,700 equity shares of Rs 100 each. The company, incorporated in 1919, started business in firefighting and mechanical handling equipment, entered the manufacturing field in 1959 by setting up a factory for manufacturing equipment. With a view to diversifying its activities, the company proposes to set up a factory at Budge Budge to manufacture firefighting equipment in collaboration with Dennis Bros of the UK. The present issue of preference shares will provide a part of the finance for the capital cost and working capital. The offer of existing equity shares is for the purpose of enlistment on the Calcutta Stock Exchange.

MADRAS RUBBER

The directors of Madras Rubber Factory Ltd have declared a higher dividend of 12 per cent (10 per cent) for the year ended September 30, 1968. The working of the company has resulted in a higher profit of Rs 80.82 lakhs after providing an increased sum of Rs 30.18 lakhs for depreciation. The provision for taxation is Rs 44 lakhs and a sum of Rs 15 lakhs has been allocated to the general reserve. The dividend at 12 per cent requires Rs 22.47 lakhs, leaving Rs 2.70 lakhs to be carried forward against Rs 3.35 lakhs brought in. The sales of the company have shown a substantial increase at Rs 16.84 crores, against Rs 14 crores in the previous year. The company has received a letter of intent to expand its present capacity to manufacture automobile tyres by 2.5 lakhs, thus making for a total capacity of 610,000 tyres and tubes per annum. Steps are being taken for the quick implementation of expansion. The company has placed the order for the imported machinery as well as indigenous items required for the manufacture of bicycle tyres and it hopes to commence trial production of this item by the middle of 1969. Commercial production is scheduled to commence during the year 1969-70. As part of its programme of diversification, the company has started an industrial products division for marketing various Mansfield industrial products and auto accessories. With the existing sales organisational set up and a net-work of 25 branches spread throughout the country, this industrial products division is expected to bring in extra profits to the company. It is estimated the total cost of this expansion and diversification will be about Rs 5 crores. The foreign exchange requirements will be about Rs 2 crores, and the rupee funds will come mainly from internal sources, it is stated. The USAID has already sanctioned a loan of Rs 75 lakhs. The company has also received a loan of Rs 24.5 lakhs and a deferred payment guarantee facility up to Rs 31 lakhs from the Industrial Finance Corporation of India. The current year saw a substantial rise in the company's exports. Its total exports rose from Rs 12.51 lakhs to Rs 38.72 lakhs in the current year.

BHARAT STEEL TUBES

Bharat Steel Tubes Ltd has registered an impressive rise in exports during the nine-month period ended December, 1968. Steel tubes and pipes of the value of Rs 2.98 crores were exported during the period against Rs 1.16 crores in the corresponding period of the previous year, showing a rise of over 80 per cent. Sales have gone up to Rs 7.39 crores during the nine-month period from Rs 5.17 crores, an increase of about 42 per cent. The managing director of the company disclosed recently that the company has exported its products to countries such as the USA and Australia. He expected a substantial increase in exports in the coming months to the USA. Meanwhile, the company has undertaken the expansion of its capacity. It is putting up a third tube mill which will produce another 24,000 tonnes to meet the increasing overseas demand for galvanised pipes. The new tube mill is expected to be commissioned in June and the entire additional production will be earmarked for export.

TATA CHEMICALS

Tata Chemicals Ltd has shown a higher turnover of Rs 506 lakhs (inclusive of excise duty), during the half year ended December 31, 1968, against Rs 476 lakhs in the corresponding

period in the previous year. Among the company's major products, the output of soda ash has recorded an increase of 6.5 per cent to 102,594 tonnes

CHOWGULE & CO.

The first 1000-tonne vessel constructed by Chowgule & Co. Private Ltd was launched recently at Sirigao shipbuilding yard. The vessel has been constructed for transportation of bulk cargoes. The managing director of the company stated that the "Kohima" will be self-propelled on which MAN German engine will be installed. This type of engines will be manufactured in the country shortly by Kirloskar and after that nearly 95 per cent of the barge will be built of indigenous raw materials and machinery. He added that Sirigao shipbuilding yard has been developed from a small barge repair yard on which a series of 1000-tonne vessels will be built.

NAGPAL PETRO-CHEM

The Nagpal Petro-Chem Refining Co. Ltd has been granted an industrial licence by the union government to establish an industry in Tamil Nadu for the manufacture of transformer oil, heavy white oils (liquid paraffins, pharmaceutical grades) and low and medium viscosit. white oils. petrolactums and sulphonates. The project will be located at Manali adjacent to the Madras Refineries, which is expected to supply the feedstock to the new venture that will form part of the petro-chemical complex to be built round the refinery. The company has entered into a collaboration arrangement with Witco Chemical Co. Inc. of the USA. The Indian Institute of Petroleum will be the project consultants. The initial paid-up capital of the company is expected to be Rs 2 crores. The company also proposes to secure a loan capital of Rs 2 crores to cover the project cost, estimated at Rs 4 crores. The company has already acquired 30 acres of land a Manali. The project is expected to go into production before the end of 1970.

ELECTRIC CONSTRUCTION

The Directors of the Electric Construction and Equipment Company Limited have proposed to maintain the dividend at one rupee per share on the 1,274,025 ordinary shares. In other words, the dividend is maintained on the increased capital. The company is making an application to the income-tax department to determine the quantum of profit which will be exempted under Section 80/J of the Income-Tax Act 1961. If the decision is known, the proportionate relief will be accredited to the shareholders at the time of paying the dividend.

CAPITAL AND BONUS ISSUES

Consent has been accorded to six companies to raise capital amounting to over Rs 1.96 crores. Five of them are to issue bonus shares amounting to Rs 91.87 lakhs. The amount of bonus shares ranges between Rs 5 lakhs and Rs 37.87 lakhs. The consents are valid for 12 months. The following are the details:

The Empire Dyeing & Manufacturing Co. Ltd, Bombay, has been accorded consent to capitalise Rs 9 lakhs out of its general reserve and issue fully-paid equity shares of Rs 15 each as bonus shares in the ratio of one for two equity shares held.

Asian Distributors Ltd, Bombay, has been given consent to capitalise Rs 10 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for five held.

The Indian Aluminium Cables Ltd, Delhi, is granted consent to capitalise Rs 30 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for four held.

Mettur Industries Ltd, Madras, has been granted consent to capitalise Rs 37.87 lakhs out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two held.

Sundaram Finance Ltd, Madras, having a subscribed and paid-up capital of Rs 90 lakhs, is accorded consent to issue further capital of Rs 10 lakhs in equity shares of Rs 100 each, of which shares of the value of Rs 5 lakhs will be issued for cash at par on rights basis and the balance of Rs 5 lakhs as bonus shares by capitalising a like amount out of its general reserve in the ratio of one bonus share for every 18 equity shares held.

The Thana Electric Supply Co. Ltd, Bombay, has been granted 'No Objection' to issue capital of Rs 1 crore in 7.75 per cent debentures of Rs 100 each, for cash at par. Of this, Rs 50 lakhs will be offered to public for cash and the remaining deposited with banks and financial institutions as collateral security for cash credit facility. The proceeds are to be utilised for meeting capital expenditure for the expansion programme for development and distribution system of electricity supply.

LICENCES AND LETTERS OF INTENT

The following licences were issued under the Industries (Development and Regulation) Act, 1951 during the week ended November 30, 1968. The list contains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting —and annual installed capacity.

LICENCES ISSUED

Industrial Machinery

M/s Mukand Iron & Steel Works Ltd, Kurla, Bombay-7. AS.. (Kalwa, Bombay, Maharashtra)—E.O.T. Cranes for Steel works, Goliath Cranes, Wall Cranes, Bridge Cranes, Level Luffing Cranes and Derrick Cranes—1,800 tonnes. N.A.); M/s Braithwaite & Co. (India) Ltd, Hide Road, Calcutta-43. (Angus, Distt. Hooghly, West Bengal)—Tower Cranes—25 nos. (N.A.); M/s G. G. Dandekar Machine Works Ltd, Dandekarwadi Bhiwindi, Distt. Thana. (Dandekarwadi, Bhiwindi Distt. Thana, Maharashtra)—Schule Rice Mills—240 nos; Rubber Roll Sheller—500 nos; Pre-cleaners—300 nos; Scalpers—12 nos; Driers—100 nos. (N.A.).

Food Processing Industries

M/s Unichem Laboratories Ltd. 10, Anand Industrial Estate, Near Mohan Nagar. P.O. Box No. 22, Ghaziabad. (Ghaziabad, Uttar Pradesh)--High Protein Vitaminised Toffees—900 tonnes; Biscuits — 1,500 tonnes; Weaning Foods — 3,000 tonnes. (N.A).

LETTERS OF INTENT

Telecommunications

M/s Bharat Electronics Ltd, P.O. Jalahalli, Bangalore. (Mysore)—Silicon Transistor and Diodes—From 4 million to 10 million nos. (S.E.).

Chemicals

M/s Chemicals & Fibres of India Ltd, 34, Chowringhee, Calcutta-16. (Maharashtra)—Polyester Fibre—From 4,500 tonnes to 6,100 tonnes. (S.E.).

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s Textile Machinery Corporation Ltd, Calcutta—Laminated Bearing Springs, Helical Springs and Door check Springs for Railway Wagons; M/s Henley Cables Ltd, Bombay-1.—Enamel Covered Copper Wire and Paper covered Wire & Strips; M/s Kalinga Industries Ltd, Talisipur, P.O. Chowdwar, Distt. Cuttack—Wooden Fishing, Vessels and Steel Barges; M/s Hindustan Steel Products, New Delhi—Dial Feed and Automatic Feed Power Presses; M/s May & Baker Ltd, Bombay—'Rovamycin' Brand Spiramycin Granules for Oral Syrup; M/s Amitabh Textile Mills Ltd, Dehradun—Cotton Waste Yarn; M/s V. R. Textiles Private Limited, Peelamadu P.O., Coimbatore —Cotton Yarn.

RECORDS AND STATISTICS

India's Foreign Trade: A Review

INDIA'S EXPORTS during the eight months of the current financial year, April-November, 1968, were an all-time high. Exports including re-exports in this period at Rs 908.3 crores were higher by Rs 111.7 crores or a little over 14 per cent compared to the corresponding period in the last year. These were also higher by 6.8 per cent over the earlier record of Rs 850.4 crores (in terms of the present rupee) reached in April-November, 1964.

An analysis of the quarterly trends during the current year shows that the rate of increase in exports rose during the two quarters, April-June and July-September, 1968, after lagging behind in the first quarter compared to January-March, 1967:

QUARTERLY TRENDS IN EXPORTS

(Rs crores)

Period	1968	1967	Percentage increase/ decrease in 1968
January-March	296.2	307.3	— 3.7
April-June	307.9	269.3	+12.5
July-September	364.4	303.0	+16.8
October-November	236.0	224.3	+ 5.2

The extent of increase during the two months of October-November, 1968 over October-November, 1967 was, however, smaller than the corresponding rise in the previous two quarters.

The following table compares the value of India's exports in each of the 11 months of the current calendar year with the corresponding months of the preceding year as also with the earlier record figures.

MONTH-WISE EXPORTS

(Rs crores post devaluation)

Month	1968	1967	Earlier record
January	105.52	103.67	103.67 (Jan. 1967)
February	91.89	88.93	97.6 (Feb. 1965)
March	98.87	114.67	122.6 (Mar. 1966)
April	103.80	91.84	106.7 (Apr. 1964)
May	107.49	80.93	97.2 (May 1965)
June	96.79	96.53	109.00 (June 1964)
July	113.17	102.06	102.06 (July 1967)
August	133.39	89.31	106.95 (Aug. 1966)
September	117.85	111.66	114.7 (Sept. 1964)
October	123.95	120.77	120.77 (Oct. 1967)
November	112.04	103.52	118.39 (Nov. 1964)

Exports in all the months of the current year except March were higher than in the corresponding months last year. In six months these were not only higher than the corresponding months of the last year but were also the highest ever recorded. It is significant that the uptrend in monthly exports has generally continued since July, 1968. However, exports in the month of November, 1968, though higher than in November, 1967, were not the highest ever recorded in that month.

Commodity-wise statistics of exports are available until October, 1968. During April-October, 1968 compared to April-October, 1967, India's overall exports at Rs 796.3 crores were higher by Rs 103.2 crores or by 15 per cent. While the exports of primary products inclusive of mineral ores taken together increased by 11.8 per cent, those of manufactured and semi-manufactured goods rose by 17.4 per cent. It is indeed significant to find that as much as 66 per cent of the rise of Rs 103 crores in overall export during the period is accounted for by the increased exports of non-traditional manufactured and semi-manufactured goods such as engineering goods, iron and steel, leather and leather manufactures, gems and jewellery, chemicals, etc.

Uptrend in Primary Products

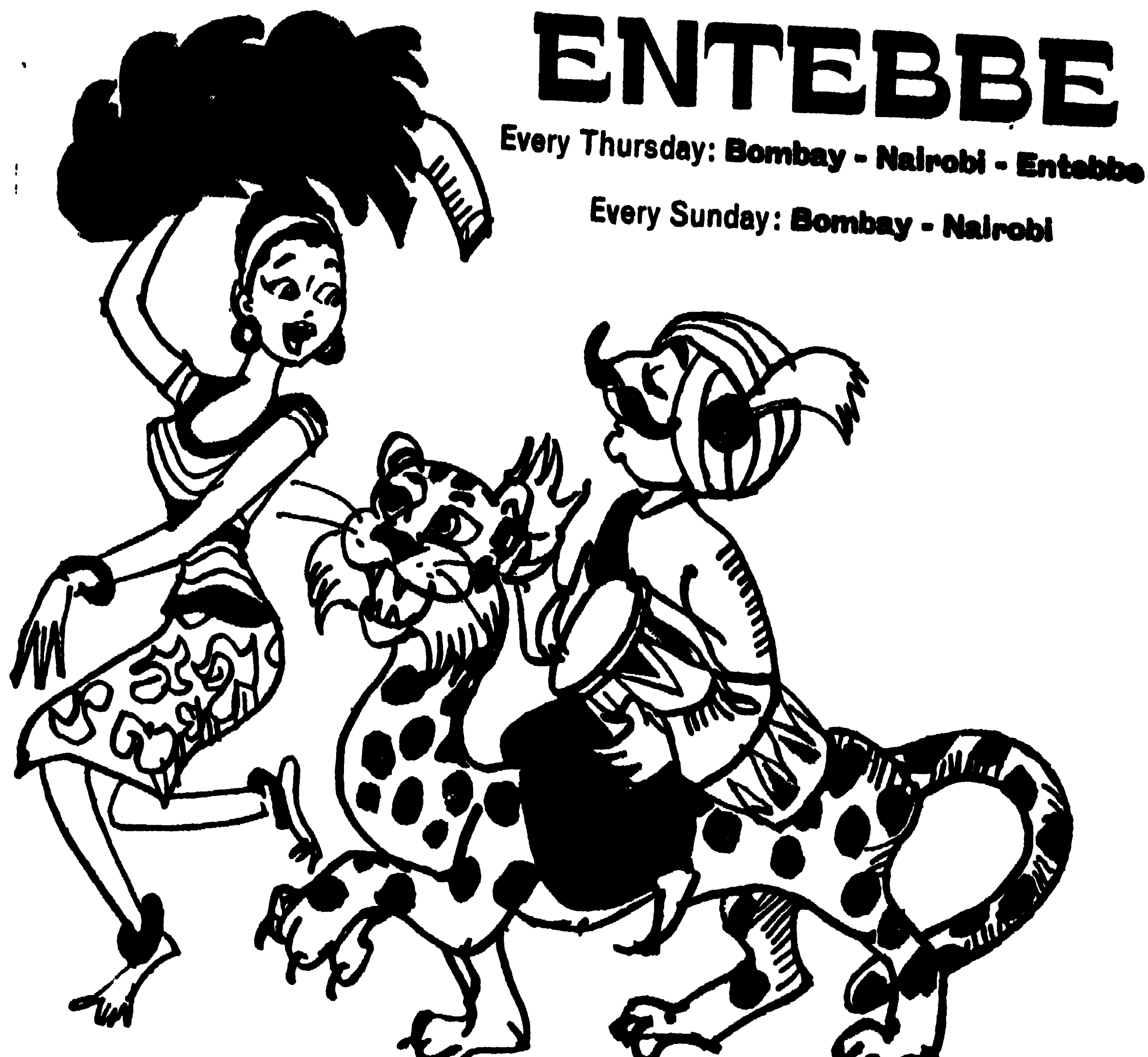
The important primary-product exports showing an uptrend during April-October, 1968, compared to April-October, 1967, were cashew kernels (+Rs 13.3 crores), iron ore (+Rs 11.4 crores), castor oil (+Rs 8 crores), oilcakes (+Rs 5.5 crores), tea (+Rs 3.53 crores), pulses (+Rs 1.58 crores), manganese ore (+Rs 1.32 crores), groundnuts and raw jute (+Rs 1.21/22 crores each), fish (+Rs 87 lakhs), coffee (+Rs 62 lakhs) and turmeric (+Rs 60 lakhs). Moderate increases were also registered by items like chillies, cardamoms and essential oils. On the other hand, a number of items had shown a decline in export earnings. These were sugar (—Rs 6.2 crores), iron and steel scrap (—Rs 2.73 crores), hides and skins raw (—Rs 2.56 crores), raw cotton (—Rs 1.86 crores), pepper (—Rs 1.14 crores), tobacco (—Rs 61 lakhs), onions (—Rs 49 lakhs), raw wool (—Rs 46 lakhs), animal casings (—Rs 60 lakhs), mica (—Rs 72 lakhs) and lac (—Rs 19 lakhs). A common reason of the shortfall in earnings from these exports was a fall in the unit price realisation. For example, the quantum of exports of all the spices taken together during April-October, 1968 at 31,000 tonnes was higher by 4,400 tonnes compared to April-October, 1967 and yet export earnings were higher only by Rs 24 lakhs. This was due to a steep fall in the unit price realised from the exports of spices, particularly, pepper, cardamoms and chillies. In fact, the unit value realised from the exports of a number of primary products during the period compared to April-October, 1967 was lower; tea, manganese ore, tobacco, oilcakes, fish, raw wool, castor oil, sugar, onions, hides and skins raw, iron and steel scrap and lac. However, the unit price fetched from the exports of iron ore, cashew kernels, mica, coffee and raw cotton was higher than earned in April-October, 1967.

On the other hand, only a few of the manufactured and semi-manufactured items of exports showed a decline in earnings. The highest decline was in the export of jute manufactures; these exports at 4.13 lakh tonnes or Rs 126 crores during April-October, 1968 were lower by 0.46 lakh tonnes or Rs 17.18 crores compared to April-October, 1967. While the decline in the value of such export was 11.9 per cent, that in quantum was 10 per cent, due primarily to a fall in the unit price realised from the exports of hessians and sacking. As a result of higher export earnings from the exports of carpet-backing cloth during the months of September-October, 1968 and the trend of recovery of unit prices of this item, the extent of decline in export earnings from jute goods is relatively smaller during the current period compared to earlier periods:

PERCENTAGE FALL IN THE EXPORT OF JUTE GOODS COMPARED TO THE CORRESPONDING PERIOD OF 1967

April-July, 1968	22.2
April-August, 1968	18.4
April-September, 1968	13.7
April-October, 1968	12

Exports of jute goods are, however, rallying, although the earnings continued to be lower than those of the comparative



figures of last year. The other items that had shown a decline in export earnings were finished leather (—Rs 2 crores), cotton piecegoods handloom (—Rs 1 crore), cine films (—Rs 88 lakhs), and footwear (—Rs 58 lakhs). The main reason of fall in export earnings of finished leather and footwear was a decline in the unit prices fetched from such exports. For example, the unit price of finished leather fell from Rs 48.67 per kg during April-October, 1967 to Rs 18 per kg during the period under review. Similarly, the unit price of footwear fell from Rs 11 per pair to Rs 6.84 per pair. The reason for a fall in the exports of handloom cloth appears to be a lower offtake by the USA.

The important items of exports of manufactured and semi-manufactured goods that had shown a spurt in earnings during the period compared to April-October, 1967 were engineering goods (+Rs 21 crores), iron and steel (+Rs 15 crores), leather and leather manufactures excluding footwear (+Rs 8.98 crores), gems and jewellery (+Rs 6.2 crores), cotton piecegoods mill-made (+Rs 4.55 crores), chemicals and allied products (+Rs 3.7 crores) and cotton yarn (+Rs 3.15 crores). There was also a heartening increase in the exports of minerals, fuels and lubricants, etc. (+Rs 1.91 crores), misc. cotton manufactures (+Rs 1.87 crores), paper and paper board (+Rs 1.63 crores), art silk fabrics and artware metal brass & copper (+Rs 1.39 crores each), handmade carpets (+Rs 1.24 crores), rubber manufactures (+Rs 1.19 crores) and coir yarn and manufactures (+Rs 94 lakhs). Moderate increases were also registered by the exports of cotton waste, cotton apparel and ferro-manganese and alloys.

The table given below compares the performance of the 21 important items of our export trade during the period under review with the corresponding period of the last year as also with the record level of exports reached in April-October, earlier:

EXPORT PERFORMANCE OF IMPORTANT ITEMS

(Rs crores post-devaluation)

Commodity	April-October, 1968	April-October, 1967	Earlier record
Jute goods	126.0	143.2	170.9 (Apr. Oct. 1965)
Tea	103.4	99.8	112.9 (Apr. Oct. 1962)
Iron ore	46.3	34.8	35.1 (Apr. Oct. 1966)
Iron & steel	43.9	28.8	28.8 (Apr. Oct. 1967)
Leather & manufactures (excluding footwear)	40.7	31.8	38.3 (Apr. Oct. 1966)
Cashew kernels	38.7	25.4	28.6 (Apr. Oct. 1966)
Engineering goods	38.0	17.0	17.0 (Apr. Oct. 1967)
Cotton piecegoods millmade	38.6	34.0	46.7 (Apr. Oct. 1960)
Oil cakes	29.0	23.5	28.7 (Apr. Oct. 1964)
Tobacco, unmanufactured	26.1	26.7	29.9 (Apr. Oct. 1964)
Precious & semi-precious stones	25.5	19.2	19.2 (Apr. Oct. 1967)
Coffee	15.0	14.4	17.1 (Apr. Oct. 1964)
Spices	12.8	12.6	16.9 (Apr. Oct. 1965)
Fish	11.2	10.3	10.3 (Apr. Oct. 1967)
Chemicals & allied products	10.4	6.7	7.2 (Apr. Oct. 1965)
Castor oil	8.2	0.2	5.5 (Apr. Oct. 1960)
Mica	7.9	8.7	10.2 (Apr. Oct. 1965)
Coir yarn & manufactures	7.8	6.8	10.6 (Apr. Oct. 1963)
Minerals, fuels, lubricants, etc.	7.3	5.3	10.2 (Apr. Oct. 1964)
Cotton yarn	7.4	4.2	6.2 (Apr. Oct. 1966)
Handmade carpets	6.7	5.5	5.5 (Apr. Oct. 1967)

The items included in the above table cover 82 per cent of the value of total exports (excluding re-exports) during April-October, 1968. The table shows that the current period is the best in respect of 12 out of the 21 important items of our exports, both traditional as well as non-traditional manufactured and semi-manufactured goods: iron ore, iron and steel, leather and leather manufactures, cashew kernels, engineering goods, oil cakes, precious and semi-precious stones, fish, chemical and allied products, castor oil, cotton yarn and handmade carpets. In the remaining items, jute goods, tea, cotton piecegoods (mill-made), tobacco, coffee, spices, mica, minerals fuels, lubricants etc. and coir yarn and manufactures, the present period's level of exports considerably lags behind the earlier record reached in the corresponding eight-month period in the 'sixties. The extent of lag is very substantial in the case of jute goods, tea, cotton textiles and spices.

Outlook of Exports

The foregoing review of commodity exports points out that the future prospects of exports of non-traditional manufactured and semi-manufactured items of our exports such as iron and steel, engineering goods, leather and manufactures, chemicals and allied products, gems and jewellery, etc are particularly bright. Further in view of the revival of the unit value of the exports of carpet backing cloth, even the exports of jute goods may not lag behind so severely. Among the primary-product traditional exports, the outlook of exports of items such as iron ore, cashew kernels, oilcakes, castor oil, etc also appears to be particularly promising.

In engineering exports, for example, the industry is said to have secured further high value export contracts worth Rs 35 crores in the last two months. These include orders for the supply of transmission line towers, cables and conductors to Iran, Sudan and even the USA. The UAR has placed orders for the supply of tipper trucks, buses and textile machinery; Burma is also likely to place an order for the supply of textile machinery worth Rs 10 crores. Similarly, exports of railway wagons to 10 countries in Europe, Asia and Africa are also being examined. Further, in iron ore, in addition to Japan and West Germany, recently Rumania has offered to buy from us 2 million tonnes of iron ore which would be worth Rs 27 crores. In cashew kernels, India now is the most important supplier, Portuguese East African supplies being relatively high priced. It is also gathered that USSR has placed an order for the purchase of about 5000 tonnes of cashew kernels from India during the first half-year of 1969, and buyers in the USA have evinced keen interest. Exports of castor oil are also likely to show a further spurt in view of new contracts of supply of 600 tonnes to Czechoslovakia and 1200 tonnes to Russia, in addition to the USA, our principal market for this product.

However, the exports of tobacco during April-October, 1968 compared to April-October, 1967 at Rs 26.1 crores, for the first time in the year, have shown a fall of Rs 61 lakhs in earnings only because of a fall in the unit prices (there was a rise in the quantum of exports). Notwithstanding the absence of Rhodesia from the world markets, the recent fall in our unit prices appears to be as a result of competition from Thailand. Similarly, the effect of the introduction by the UK of the Import Deposit Scheme on our exports of cotton textiles will have to be watched; it might adversely affect our exports which are at present showing an uptrend.

The government is making an all-out effort, to strengthen production for exports. For example, recently government has decided to make available not only steel but also plastics at international prices to export industries. If necessary, a similar policy might be followed in respect of other intermediate goods and raw materials required by the export industries. Broadly speaking, the present export promotion policies which cover cash assistance, import replenishment, drawback of excise and customs duties, availability of imported

raw material from sources of choice, tax concession, marketing development assistance, etc. are also likely to be continued in the coming financial year so as to enable industries to plan exports on a long-term basis.

Direction of Exports

Of the overall rise in exports of Rs 103.2 crores during April-October, 1968 over April-October, 1967, as much as 41 per cent is accounted for by the increased exports to the ECAFE region alone; 18.5 per cent increase in exports is attributable to east Europe, 17 per cent to west Europe and 8.4 per cent to America.

Taking Asia and Oceania countries together, India's exports to this region during the period under review at Rs 231.9 crores were higher by 34.2 per cent compared to April-October, 1967. The rise was shared both by the ECAFE countries as well as the west Asian countries, thanks to the continued closure of the Suez Canal. To the ECAFE countries, our exports during the period at Rs 192 crores represent a rise of 29 per cent compared to April-October, 1967. Again, as much as 29 per cent of this rise may be attributed to higher exports to Japan alone; to this country our exports at Rs 84.9 crores showed a rise of 18.5 per cent compared to April-October, 1967 mainly due to higher exports of iron and steel, iron ore, and castor oil. There was a heartening increase in our exports to Burma (+Rs 5.6 crores), Nepal (+Rs 3.9 crores), Ceylon (+Rs 3.6 crores) and Singapore (+Rs 2.5 crores). Moderate increases were also registered in our exports to Afghanistan, Farmosa, and the Philippines. However, there was a decline in our exports to Australia, Malaysia and Thailand.

Exports to the west Asian countries at Rs 40 crores during the period were higher by Rs 17 crores compared to April-October, 1967. There was a substantial increase in our exports to Kuwait, which stood at Rs 10.7 crores during the period as against Rs 6.3 crores during April-October, 1967. Similarly, to the People's Republic of South Yemen, Saudi Arabia, Bahrein Islands, Jordan and Lebanon, our exports increased considerably.

Trade With Europe

To west Europe, our exports at Rs 211.8 crores during the period were higher by Rs 17.4 crores or 9 per cent compared to April-October, 1967. Almost all this rise was as a result of increased exports to the EEC. Among the EEC countries, exports to West Germany at Rs 16.7 crores were higher by about Rs 5 crores, to Belgium at Rs 18 crores were higher by about Rs 6 crores, and to the Netherlands at Rs 9.6 crores were higher by Rs 2.9 crores. Similarly, there was an increase in our exports to France and Italy. In the Free Trade Area, there was an increase of only Rs 1.2 crores in our exports to the UK, which stood at Rs 133.4 crores during the period under review. Exports to Sweden and Switzerland also showed a small increase.

India's exports to the American region at Rs 151.9 crores during the period were higher by Rs 8.7 crores or over 6 per cent compared to April-October, 1967. Excepting the USA where our exports at Rs 130.7 crores were higher by 8.3 per cent, exports to Canada as well as Latin America showed a decline.

There was an encouraging increase of 13.6 per cent in our exports to east European countries during the period; these stood at Rs 159.7 crores as against Rs 140.5 crores during April-October, 1967. Exports to the USSR at Rs 92.3 crores were higher by Rs 11.6 crores or 14.4 per cent compared to April-October, 1967. Similarly, there was an encouraging upward trend in our exports to Czechoslovakia, Poland, Rumania and Yugoslavia. However, there was a fall in our exports to Bulgaria and Hungary.

To the African region, India's exports at Rs 41 crores during the period were lower by Rs 1.2 crores compared to April-October, 1967. This was mainly due to a fall in our exports to the UAR, Nigeria, Tunisia and Zambia. To the UAR, our exports at Rs 11.2 crores were smaller by Rs 2.1 crores mainly because of a shortfall in the exports of tea and handloom cloth. To many of the remaining African countries, however, our exports were higher: Ethiopia, Ghana, Kenya, Libya, Mauritius, Sierra Leone, Sudan, Tanzania and Uganda.

Trends in Imports

India's imports during the eight months April-November, 1968 at Rs 1226.8 crores were lower by Rs 95.3 crores or 7.2 per cent compared to the corresponding period in the last year. Commodity-wise statistics of imports are available until September, 1968 only. During the half-year April-September, 1968 our imports at Rs 958.4 crores were lower by 5.8 per cent compared to April-September, 1967. Bulk of this reduction was due to the reduced imports of foodgrains and metals. Part of the decrease in the imports of foodgrains was offset by the rise in the imports of fertilizers. Thanks to the record food crop last year and delay in the release of PL 480 imports, imports of foodgrains during the half-year under review at Rs 200.3 crores were lower by Rs 73 crores compared to April-September, 1967. Similarly, the imports of metals (ferrous and non-ferrous together) at Rs 90.6 crores were also lower by as much as Rs 26 crores or 29 per cent compared to April-September, 1967. The reduction in the imports of metals was both in the case of iron and steel (mainly special steels) as well as non-ferrous metals such as aluminium and copper. It was mainly the result of our efforts in the direction of import substitution and partly because of increase in the prices of imported metals after devaluation. The import of fertilisers, on the other hand, at Rs 80.5 crores during April-September, 1968 were higher by Rs 26.4 crores compared to April-September, 1967. Chemical fertilisers being an essential agricultural input and the domestic production being insufficient to meet our requirements, the rise in such imports was to be expected. The table below brings out in a summary form trends in composition of India's imports during the half-year April-September, 1968:—

TRENDS IN IMPORTS APRIL-SEPTEMBER, 1968

Rs crores

	1968	1967	Percentage decrease/ increase
Total imports	958.4	1017.3	— 5.8
Imports of foodgrains	200.3	273.0	—26.6
Fertilisers	80.5	54.1	+48.8
Imports other than cereals and fertilisers	677.6	690.2	-- 1.8
of which:			
Machinery and transport equipment	270.2	244.8	+10.4
Industrial raw-materials other than fertilisers	233.9	166.1	+40.8
Metals	90.6	116.9	—29.0

The above table shows that our imports other than those of cereals and fertilisers during the period under review at Rs 678 crores were lower only marginally (by Rs 12.6 crores) compared to April-September, 1967, as against a decline of about 6 per cent in the overall imports. The imports of industrial raw materials such as chemicals, raw cotton, petroleum crude and petroleum products, plastic materials, paper, paperboard and manufactures, non-metallic mineral manufactures etc, at Rs 234 crores were substantially higher i.e. by 40.8 per cent compared to April-September, 1967. Similarly, there was an increase of over 10 per cent in the imports of machinery and transport equipment (the rise was only in the imports of non-

electric machinery) which includes mainly machinery parts, spares and components. A rise in the imports of both industrial raw material as well as machinery spare parts and components is indicative of a revival in the industrial activity in the economy.

Apart from the fall in the imports of foodgrains, the main items whose imports during the period compared to April-September, 1967 fell considerably were iron and steel (—Rs 15.7 crores), aluminium (—Rs 8.9 crores), sulphur (—Rs 8 crores), animal oils & fats (—Rs 7.4 crores), copper (—Rs 7.3 crores), vegetable oils (—Rs 7.1 crores), raw jute and mesta (—Rs 4.6 crores), raw wool (—Rs 2.6 crores), crude rubber including synthetic rubber (—Rs 1.9 crores), chemical wood-pulp (—Rs 1.2 crores), professional and scientific equipment (—Rs 2.7 crores), medical and pharmaceutical products (—Rs 1.8 crores), transport equipment (—Rs 1 crore), metal manufactures (—Rs 56 lakhs) and copra (—Rs 49 lakhs).

The main items whose imports increased during the period compared to April-September, 1967, were non-electric machinery parts, spares and components (+Rs 26.6 crores), fertilisers (+Rs 25.2 crores), petroleum crude and partly refined (+Rs 12.1 crores), chemical elements and compounds (+Rs 10.35 crores), zinc (+Rs 6.3 crores), raw cotton (+Rs 5.8 crores), cashew nuts (+Rs 1.5 crores), non-metallic mineral manufactures (+Rs 1.46 crores), crude fertilisers (+Rs 1.2 crores), plastic materials (+Rs 1.1 crores), paper, paperboard and manufactures (+Rs 1.3 crores), dyeing, tanning and colouring material (+Rs 78 lakhs), asbestos fibre, raw (+Rs 60 lakhs), and nickel (+Rs 42 lakhs).

The foregoing review of trends in imports shows that India's imports other than those of foodgrains and fertilisers during the first half-year of 1968-69 were more or less the same as in the corresponding period of 1967-68. However, in view of the setting in of the trend of revival of industrial activity in the country, our import bill in the second half-year is likely to be somewhat higher.

During April-September, 1968, for which countrywise statistics of balance of trade are available, India's balance of trade with all the regions of the world except Africa and east Europe showed an improvement compared to the position in April-September, 1967.

During the period under review compared to April-September, 1967, there was a significant improvement in India's balance of trade with Asia both with the ECAFE countries as well as the other Asian countries, particularly, the west Asian countries. From an unfavourable balance of trade (—Rs 21 crores) in April-September, 1967, our trade balance with Asia and Oceania became a favourable balance of over Rs 50 crores during the period under review. This was so mainly because of an increase in India's exports to Japan, Iran, Afghanistan,

INDIA'S EXPORTS OF PRIMARY PRODUCTS
(Main items only)

Value in Rs lakhs

Item	Unit	April-October 1968 Qty.	April-October 1968 Val.	1967 Qty.	1967 Val.	Rise + fall — in April-October, 1968 over April-October, 1967 Qty.	Val.
Fruits and vegetables and pulses	Value	—	46,39	—	30,74	—	+1565
Cashew kernels	'000 tonnes	40.1	38,71	30.9	25,37	+ 9.2	+1334
Pulses	"	14.4	2,10	2.7	52	+11.7	+ 158
Onions	"	54.0	2,05	61.6	2,54	— 7.6	— 49
Vegetable oils (non-essential)	"	36.5	9,27	6.8	1,28	+29.7	+ 799
Castor oil	"	29.6	8,22	0.7	24	+28.9	798
Tea	Mill. kgs	124.2	103,37	108.1	99,84	+16.1	+ 353
Oil cakes	'000 tonnes	498.1	28,99	383.1	23,49	+115.0	+ 550
Tobacco unmanufactured	"	42.5	26,08	41.9	26,69	+ 0.6	— 61
Spices	"	31.0	12,84	26,6	12,60	+ 4.4	+ 24
Pepper	"	9.2	4,77	11.1	5,91	— 1.9	— 114
Cardamoms	"	0.6	2,53	0.5	2,48	+ 0.1	+ 5
Chillies	"	7.8	1,82	5.0	1.51	+ 2.8	+ 31
Turmeric	"	4.3	1,24	3.2	64	+ 1.1	+ 60
Groundnuts	"	8.9	1,22	—	—	+ 8.9	+ 122
Manganese ore	"	738.8	7,75	576.3	6,43	+162.5	+ 132
Fish	"	13.1	11,18	11.5	10,31	+ 1.6	+ 87
Hides & skins, raw	Value	—	3,06	—	5,62	—	— 256
Raw jute	'000 tonnes	8.7	1,98	3.3	77	+ 5.4	+ 121
Raw wool	"	5.1	2,95	5.4	3,41	— 0.3	— 46
Lac	"	9.4	2,72	8.4	2,91	+ 1.0	— 19
Animal casings	Value	—	1,08	—	1,68	—	— 60
Mica	Mill. kgs	12.6	7,93	13.8	8,65	— 1.2	— 72
Raw cotton	'000 tonnes	17.4	6,84	26.5	8,70	— 9.1	— 186
Iron ore	Mill. tonnes	8.1	46,26	6.4	34,83	+ 1.7	+ 114
Coffee	'000 tonnes	23.9	15,03	26,3	14,41	— 2.4	+ 62
Iron & steel scrap	"	276.1	4,63	341.0	7,36	—64.9	— 273
Sugar	"	82.2	3,16	151.3	9,36	—69.1	— 620
Essential oils, perfume and flavour materials	Value	—	2,57	—	2,33	—	+ 24
Bones crushed	Mill. kgs	33.7	2,01	46.4	3,29	—12.7	— 128
Rose wood	'000 Cubic metre	7.6	1,77	6.8	1,87	+ 0.8	— 10
Opium crude	Lakh kgs	2.8	2,51	2.3	2,05	+ 0.5	+ 46

Burma, Ceylon, South Korea, Nepal, Singapore, Iraq, Kuwait, Qatar, South Yemen, Bahrein Islands and Lebanon. An equally important factor was a decrease in our imports from Australia, Thailand, Singapore, Nepal, Malaysia and Afghanistan.

INDIA'S BALANCE OF TRADE: APRIL-SEPTEMBER

(Rs crores)

Region	1968 Imports	1968 Exports	1968 Balance of trade	1967 Imports	1967 Exports	1967 Balance of trade
America	**386.4**	**125.1**	**—261.3**	**464.2**	**118.0**	**—346.2**
West Europe	**216.3**	**179.4**	**— 36.9**	**241.7**	**153.5**	**— 88.2**
EEC	124.4	55.1	— 69.3	128.6	38.8	— 89.8
EFTA	90.5	119.8	+ 29.3	109.5	110.4	+ 0.9
Asia & Oceania	**148.8**	**198.9**	**+ 50.1**	**165.2**	**144.0**	**— 21.2**
ECAFE	126.0	164.4	+ 38.4	151.9	124.8	— 27.1
East Europe	**129.2**	**135.5**	**+ 6.3**	**94.7**	**123.2**	**+ 28.5**
Africa	**77.0**	**33.4**	**— 43.6**	**51.6**	**33.7**	**— 17.9**

Another important feature relates to a considerable improvement in our balance of trade with west Europe and more particularly the European Free Trade Area countries. From an unfavourable trade balance of Rs 88 crores during April-September, 1967, it became an adverse balance of trade of Rs 37 crores during the period under review. With the EEC countries, the corresponding reduction was from (—Rs 89.8 crores to (—Rs 69.3 crores, mainly because of a rise in our exports to Belgium, west Germany, the Netherlands, Italy and France, and reduction in our imports from west Germany, the Netherlands, and Belgium. With the EFTA sub-region, our balance of trade which was (+)Rs 83 lakhs in April-September, 1967, improved to (+) Rs 29.3 crores during the period under review, mainly as a result of a fall in our imports from the UK and increased exports to the UK, Sweden and Switzerland. Similarly, there was a heartening improvement in our balance of trade with the American region which was (—) Rs 261 crores during the period under review as against (—) Rs 346 crores during April-September, 1967. In North America the improvement was both as a result of increase in our exports to the USA and a fall in our imports from that country as also from Canada.

India's balance of trade with the Rupee Payment Area countries, though favourable, in fact showed a deterioration during the period under review compared to April-September, 1967; it stood at (+) Rs 6.3 crores as against (+) Rs 28.5 crores during April-September, 1967. This was mainly due to an increase in our imports from the USSR, Czechoslovakia and Bulgaria and a fall in our exports to Hungary and Bulgaria and a stagnant level of exports to east Germany. However, there was a significant increase in our exports to Poland, the USSR and Czechoslovakia. As already said, there was some deterioration in India's balance of trade with the African countries; this was mainly due to a fall in our exports to the UAR and Nigeria and an increase in our imports from the UAR, Congo, Sudan, Uganda and Zambia.

INDIA'S EXPORTS OF MANUFACTURED AND SEMI-MANUFACTURED GOODS
(Main items only)

Value in Rs lakhs

Item	Unit	April-October 1968 Qty.	April-October 1968 Val.	1967 Qty.	1967 Val.	Rise +/fall — in April-October 1968 over April-Oct. 1967 Qty.	Val.
Jute manufactures	Lakh tonnes	4.12	12597	4.59	14315	— 0.46	—1718
Cotton piecegoods mill-made	M. sq. mts.	267.1	3856	235.9	3401	+31.2	+ 455
Coir yarn and manufactures	'000 tonnes	33.1	778	30.0	684	+ 3.1	+ 94
Cotton waste	„	18.1	327	16.4	284	+ 1.7	+ 43
Artware metal, brass and copper	Value	—	330	—	181	—	+1139
Cotton piecegoods, handloom	Mill. Mets.	10.0	249	15.7	350	— 5.7	— 101
Cotton yarn	Mill. kgs	12.0	739	6.2	424	+ 5.8	+ 315
Leather and leather manufactures							
Excluding footwear	Value	—	4074	—	3182	—	+ 892
E.I. tanned hides and skins	Mill. kgs.	12.7	2726	7.8	1943	+ 4.9	+ 783
Finished leather	„	0.5	90	0.6	292	— 0.1	— 202
Chrome tanned	„	6.2	1023	4.6	931	+ 1.6	+ 92
Leather miscellaneous and manufactures of leather	Value	—	235	—	16	—	+ 219
Engineering goods	„	—	3800	—	1701	—	+2099
Iron and steel	„	—	4385	—	2883	—	+1502
Pearls, precious and semi-precious stones	„	—	2545	—	1922	—	+ 623
Minerals, fuels, lubricants and related products including coal and coke	Value	—	725	—	534	—	+ 191
Other textile manufactures	Value	—	628	—	465	—	+ 163
Chemicals and allied products excluding essential oils	„	—	1039	—	668	—	+ 371
Fabrics of art silk and synthetic fibre and spun glass-mill-made	M. mets.	10.9	205	2.6	66	+ 8.3	+ 139
Rubber manufactures	Value	—	306	—	187	—	+ 119
Tyres and tubes	Lakh No.	17.7	261	14.5	169	+ 3.2	+ 92
Cotton apparel	Value	—	210	—	184	—	+ 26
Handmade carpets	„	—	669	—	545	—	+ 124
Misc. cotton manufactures	„	—	880	—	693	—	+ 187
Footwear—Leather and canvas	Mill. pairs	4.3	294	3.2	352	+ 1.1	— 58
Ferro-manganese and ferro-alloys	'000 tonnes	32.7	142	11.9	123	+20.8	+ 19
Paper and paper board	Value	—	325	—	162	—	+ 163
Cinematographic films developed	Mill. Mets.	3.6	155	6.9	243	— 3.3	— 88

INDIA'S EXPORTS (Country-wise)

Rs lakhs

	April-October 1968*	April-October 1967*
Africa	41,00	42,18
Ethiopia	95	52
Ghana	77	61
Kenya	4,78	3,77
Libya	1,14	81
Mauritius and Dependencies	86	71
Nigeria	1,67	2,53
Sierra Leone	73	39
Sudan	10,94	10,59
Tanzania, United Republic of	3,29	2,52
Tunisia	40	1,79
Uganda	1,22	90
United Arab Republic	11,16	13,29
Zambia	86	1,25
America	151,93	143,25
North America	148,33	138,97
Canada	17,61	18,28
USA	130,72	120.69
Latin America	2,39	3,24
Argentina	51	46
Uruguay	23	34
Other American Countries	1,21	1,04
Guyana	16	13
Asia & Oceania	231,89	172,75
ECAFE	192,13	149,42
Afghanistan	4,69	3,19
Australia	15,61	16,10
Burma	7,52	1,92
Ceylon	12,51	8,92
Formosa	1 53	16
Japan	84,92	71,64
Malaysia (excl. Singapore)	3,98	4,39
Nepal	13,31	9,41
New Zealand	4,22	4,50
Philippines	1,65	51
Singapore	7,59	5,07
Vietnam Republic of	27	80
Thailand	4,12	5.04
Other Asia & Oceania	39,76	23,33
Bahrein Islands	1,91	1,47
Fiji	74	80
Jordan	1,23	96
Kuwait	10,66	6,30
Lebanon	1,25	89
Qatar	3,86	2,31
S. Yemen, People's Republic of	4,30	2.72
Saudi Arabia	5,68	2,44
Syria	87	2.07
East European (RPA Countries)	159,70	140,58
Bulgaria	1,69	2,13
Czechoslovakia	19,56	17,57
German Democratic Republic	11,82	11,83
Hungary	5,41	6,91
Poland	14,73	10,55
Roumania	3,28	2.48
USSR	92,29	80,67
Yugoslavia	10,92	8 44

Rs lakhs

	April-October 1968*	April-October 1967*
West Europe	211,75	194,35
EEC	64,22	48,75
Belgium	17,98	11,90
France	10,28	9,17
German Federal Republic	16,74	11,87
Italy	9,59	9,10
Netherlands	9,63	6,71
EFTA	141,99	140,17
UK	133 45	132,25
Denmark	1,40	1,54
Sweden	2,48	1.77
Switzerland	3.57	3,51
Other West Europe	5,64	5,43
Finland	21	39
Irish Republic	3,11	2,96
Spain	1,09	83
Total Exports incl. re-exports	796,27	693,11

* Figures are provisional and hence subject to revision.

UNIT VALUE REALISED FROM INDIA'S EXPORTS

Value in Rs

Item	Unit	April 1968	April 1967
Jute manufactures	Tonnes	3050.12	3118.74
Hessian cloth	..	2346.01	3104.92
Hessian bags	..	2876.31	3441.86
Sacking cloth	..	1924.49	2314.77
Sacking bags	..	2027.03	2218.18
Carpet backing cloth	..	4469.23	4563.75
Tea	Kg.	8 32	9,23
Coffee	..	6.29	5.48
Cotton piecegoods-millmade	Sq. Met	1.44	1.44
Cotton piecegoods-handloom	Metre	2.49	2.23
Iron ore	Tonnes	57.11	54.42
Manganese ore	..	104.90	111.57
Mica	Kg	6.29	6.27
Cashew kernels	Tonnes	9653.37	8210.35
Finished leather	Kg.	18.00	48.67
Chrome leather tanned	..	16.50	20.24
E.I. tanned leather	..	21.46	24.91
Footwear	Pair	6 84	11.00
Tobacco, unmanufactured	Kg.	6.14	6.37
Spices	Tonnes	4141.93	4736.84
Pepper		5184.78	5324.32
Cardamom	..	12166.67	49600.00
Chillies	..	2333.33	3020.00
Oilcakes	Tonnes	582.61	613.15
Fish	..	8534.35	8965.22
Cotton raw	..	3931.03	3283.02
Wool raw	..	5784.31	6314.81
Castor oil	..	2777.03	3428.57
Sugar	..	384.43	618.64
Onions	..	379.63	412.34
Lac	..	2893.62	3464.29
Iron and steel scrap	..	167.69	215.84

INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

(April-September)

Value in Rs lakhs

Commodity/Unit	1968 Qty.	1968 Value	1967 Qty.	1967 Value
Dairy products and eggs	—	538		929
Cereals, cereal preparations (grams, pulses and flour and preparations thereof)	—	20032		27301
Cashewnuts ('000 tonnes)	70	1020	57	870
Copra ('000 tonnes)	3	57	7	106
Coffee, tea, cocoa, spices and manufactures thereof		43		161
Crude rubber (including synthetic and reclaimed)	—	104		296
Tobacco unmanufactured (Lakh kgs.)	1	5	6	131
Chemical wood pulp (Lakh kgs)	204	308	272	426
Wool raw (Lakh kgs)	61	511	78	770
Raw cotton excl. linters ('000 tonnes)	97	6493	97	5916
Jute and mesta	—	14	—	47
Fertilizers crude	—	600	—	480
Sulphur (Lakh kgs)	1475	855	3049	1659
Asbestos fibre raw (Lakh kgs)	158	295	137	235
Petroleum crude and partly refined for further refining (excluding gasolene) ('000 tonnes)	4003	3557	3101	2345
Petroleum products	—	1403	—	847
Animal oils and fats		479	—	1219
Vegetable oils	—	282		968
Chemical elements and compounds	—	5176		4141
Dyeing, tanning and colouring materials	—	513	—	435

Value in Rs lakhs

Commodity/Unit	1968 Qty.	1968 Value	1967 Qty.	1967 Value
Medicinal and pharmaceutical products	—	785	—	964
Fertilizer manufactured		7452	—	4034
Plastic materials regenerated cellulose and artificial resins	—	761	—	649
Paper, paperboard and manufactures thereof	—	1083	—	950
Yarn and thread of synthetic fibre (Lakh kgs)	16	212	14	189
Non-metallic mineral manufactures, n.e.s.	—	1140	—	994
Iron and steel ('000 tonnes)	224	4553	307	6119
Non-ferrous metals	—	4510	—	5570
Copper (Lakh kgs)	160	1514	235	2247
Nickel (Lakh kgs)	9	220	11	178
Aluminium (Lakh kgs)	71	326	269	1214
Lead (Lakh kgs)	153	289	193	327
Zinc (Lakh kgs)	701	1411	344	782
Tin (Lakh kgs)	28	664	27	693
Manufactures of metals, n.e.s.	—	700	—	756
Machinery other than electric	—	19049	—	16385
Electrical machinery, apparatus and appliances	—	4513	—	4538
Transport equipment	—	3460	—	3560
Professional, scientific and controlling instruments photographic and optical goods, watches and clocks		926	—	1197
Printed matter	—	244	—	244
Grand Total	—	**95842**	—	**101733**

DIRECTION OF INDIA'S FOREIGN TRADE

(April-September)

(Rs lakhs)

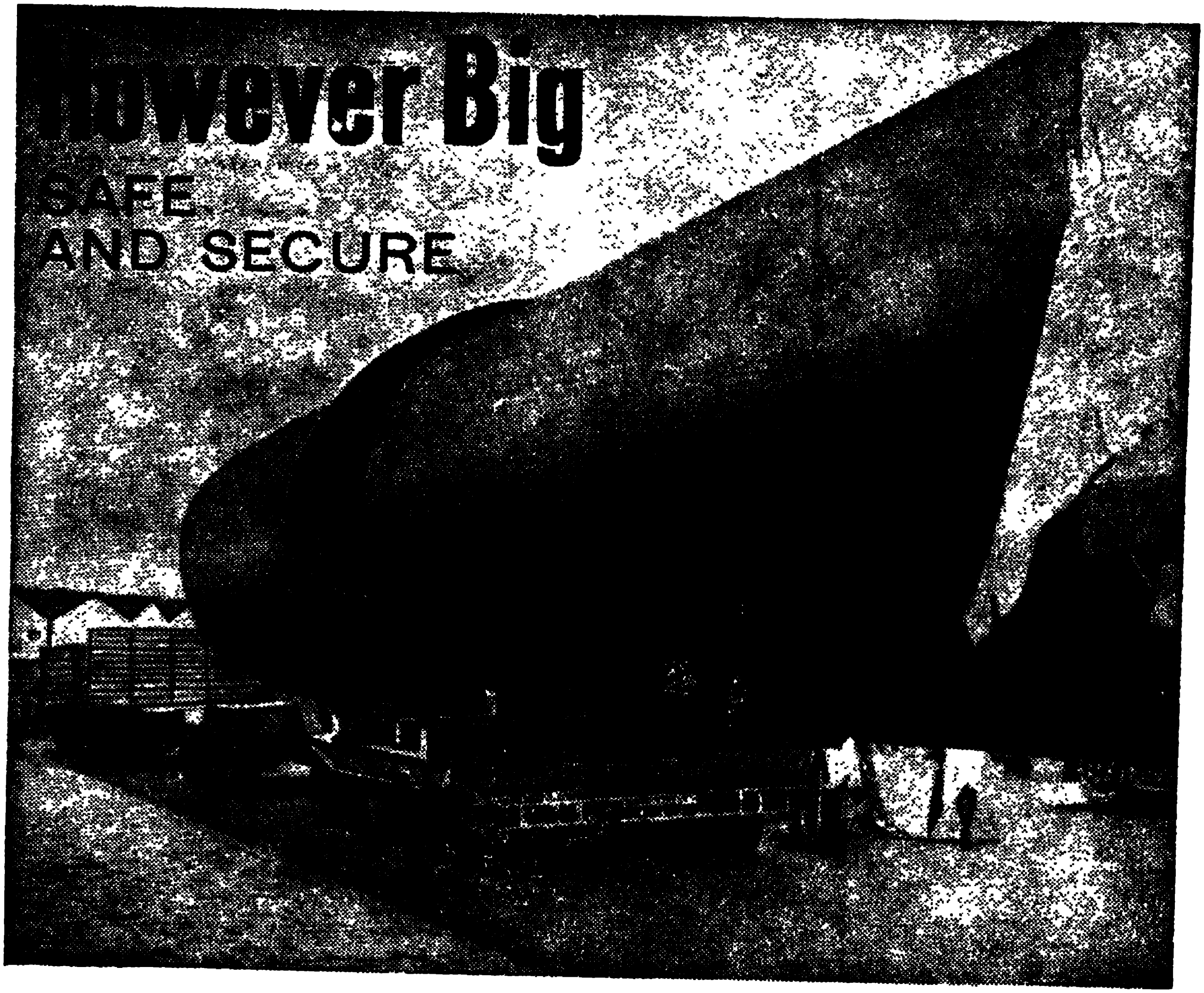
Region/Country	Imports 1968	Imports 1967	Exports 1968	Exports 1967	Balance of Trade 1968	Balance of Trade 1967
Africa	7701	5157	3343	3365	— 4358	— 1792
Congo (Brazaville)	797	472	1	5	— 796	— 467
Kenya	477	544	393	292	— 84	— 252
Mauritius	22	3	80	59	+ 58	+ 56
Morocco	36	148	10	6	— 26	— 142
Nigeria	6	52	134	209	+ 128	+ 157
Other east African countries	704	507	10	56	694	— 451
Sudan	1414	973	915	686	— 499	— 287
Tanzania	433	427	282	197	151	— 230
Tunisia	81	35	34	137	— 47	+ 102
Uganda	369	208	94	69	275	— 139
United Arab Republic	2692	1494	862	1195	— 1830	— 299
Zambia	325	89	78	112	— 247	+ 23
America	38639	46417	12512	11797	—26127	—34620
North America	38042	45465	12203	11441	—25839	—34024
Canada	5126	6056	1359	1442	— 3767	— 4614
USA	32916	39409	10844	9999	—22072	—29410
Latin America:	538	799	201	272	— 337	— 527
Brazil	223	106	16	35	— 207	— 71
Equador	—	Negl.	6	14	+ 6	+ 14
Mexico	154	171	20	21	— 134	— 150

DIRECTION OF INDIA'S FOREIGN TRADE (Contd.)

(April-September)

(Rs lakhs)

Region/Country	Imports 1968	Imports 1967	Exports 1968	Exports 1967	Balance of Trade 1968	Balance of Trade 1967
Other American countries	59	153	108	84	+ 49	— 69
Asia and Oceania	14884	16524	19889	14406	+ 5005	— 2118
ECAFE	12602	15194	16437	12481	+ 3835	— 2713
Afghanistan	267	406	430	274	+ 163	— 132
Australia	1249	3545	1342	1396	+ 93	— 2149
Burma	749	484	641	160	— 108	— 324
Ceylon	22	113	1041	732	+ 1019	+ 619
Hongkong	61	33	527	365	+ 466	+ 332
Indonesia	8	7	381	319	+ 373	+ 312
Iran	1729	1502	1143	678	— 586	— 824
Japan	6765	5445	7208	5968	+ 443	+ 523
Korea Republic of	22	15	532	65	+ 510	+ 50
Malaysia (excl. Singapore)	301	548	324	386	+ 23	— 162
Nepal	629	936	1149	781	+ 520	— 155
New Zealand	90	96	368	359	+ 278	+ 263
Singapore	53	371	662	412	+ 609	+ 41
Thailand	639	1321	365	426	— 274	— 895
Vietnam Republic of	—	Negl.	24	76	+ 24	+ 76
Other Asian and Oceanian Countries	2282	1330	3452	1925	+ 1170	+ 595
Bahrein Island	5	16	160	119	+ 155	+ 103
Iraq	88	79	694	173	+ 606	+ 94
Jordan	246	198	111	91	— 135	— 107
Kuwait	203	120	960	510	+ 757	— 390
Lebanon	1	5	106	72	+ 105	+ 67
Qatar	4	1	329	198	+ 325	+ 197
S. Yemen, Peoples' Republic of	2	—	379	213	+ 377	+ 213
Saudi Arabia	1726	831	440	160	— 1286	— 671
Syria	Negl.	6	83	207	+ 83	+ 201
East European (Rupee Payment) Countries	12920	9467	13547	12321	+ 627	+ 2854
Bulgaria	425	83	124	190	— 301	+ 107
Czechoslovakia	1908	1396	1694	1519	— 214	+ 123
German Democratic Republic	958	953	1065	1040	+ 107	+ 87
Hungary	618	730	482	606	— 136	— 124
Poland	1194	1267	1314	786	+ 120	— 481
Roumania	190	228	277	206	+ 87	— 22
Union of Soviet Socialist Republic	7206	4100	7716	7205	+ 510	+ 3105
Yugoslavia	420	710	876	769	+ 456	+ 59
West Europe	21632	24169	17938	15345	— 3694	— 8824
EEC	12441	12856	5507	3875	— 6934	— 8981
Belgium	552	976	1472	839	+ 920	— 137
France	1971	1657	866	756	— 1105	— 901
Federal Republic of Germany	6545	7264	1474	1004	— 5071	— 6260
Italy	2544	1682	850	734	— 1694	— 948
Luxembourg	1	3	—	Negl.	— 1	— 3
Netherlands	828	1273	844	542	+ 16	— 731
EFTA	9055	10954	11982	11037	+ 2927	+ 83
UK	6619	8584	11240	10375	+ 4621	+ 1791
Austria	258	221	20	34	— 238	— 187
Denmark	279	251	115	126	— 164	— 125
Norway	124	190	77	68	— 47	— 122
Sweden	984	990	231	150	— 753	— 840
Switzerland	787	707	298	284	— 489	— 423
Other West Europe	136	359	449	433	+ 313	+ 74
Ireland	1	Negl.	249	218	+ 248	+ 218
Spain	61	272	100	75	+ 39	— 197
Grand Total of Exports including Re-exports	95842	101733	67229	57234	—28613	—44499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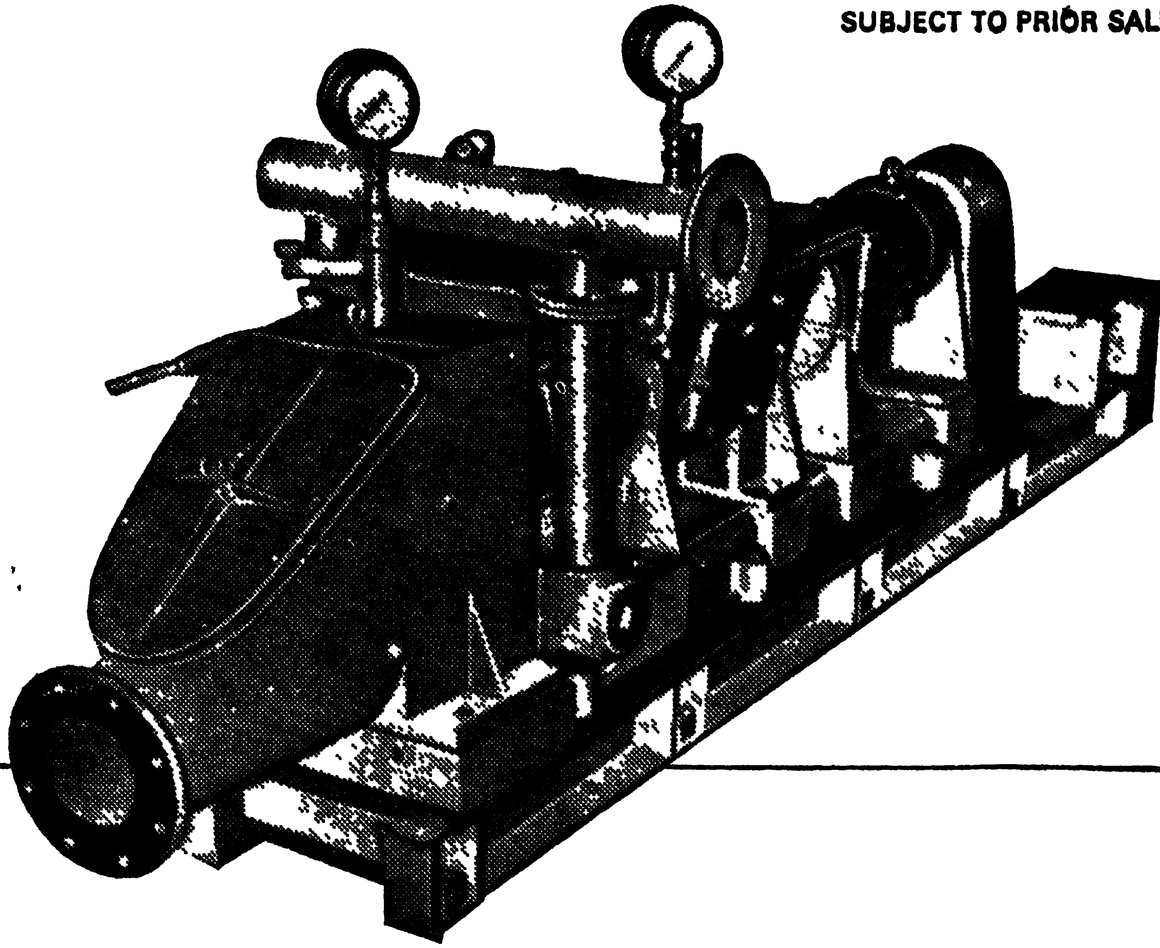

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EASTERN ECONOMIST 7

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Opposition parties have no aim.—P.M.

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From Here to February 28

I

THE ATTITUDE of our Finance Ministers towards the stock exchanges has been very much like that of an uncertain, elderly husband towards a youthful second or third wife. The old man is apt to be suspicious of her robust playfulness even while secretly hoping to be invigorated by it. Let us pray that Mr Morarji Desai has no such reservations now about the ray of sunshine that has at last begun playing, even if only fitfully, on the share markets.

The Reserve Bank's index of equity prices, as on January 25, shows an improvement of about 17 per cent over the preceding 12 months. For some time now share values have been inching forward with a persistence which had not been seen in recent years. Quite clearly this is due to a growing shortage of scrips. There has been, for instance, a slackening in the pace of emergence of new industrial undertakings with the result that there have not been many new issues of equity capital. Again, the absence of a strong investment sentiment has dis couraged the issue of rights shares and the general tendency among existing industrial concerns has been to depend as much as possible on institutional finance, debentures or preference capital.

On the demand side, while the general weakness of the capital market, reinforced by the high cost of credit, has restricted activity by and large, there has nevertheless been a steady, almost mechanical, growth in the requirements of institutional investors such as the LIC and the Unit Trust. It is the support provided by this institutional custom for a market where the volume of floating scrips is being artificially kept down that explains the underlying trend of stability in the stock exchanges.

Taking off from here are certain other influences which have brought about the current spell of activity in equities. The slow retreat of the recession and the gradual recovery in industrial activity, progress in agricultural production, improvement in exports, some easing of pessimism about foreign aid and, above all, indications of a favourable trend in government policies have encouraged investors to take a second look at the investment possibilities of equity prices which had been declining over a period. The stock exchanges, in other words, are looking up for the same reasons which seem to have prompted spokesmen of the government, including the Prime Minister, the Deputy Prime Minister and Finance Minister, and other members of the cabinet to express themselves confidently and cheerfully on the economic prospects before the nation. This is why it was suggested earlier that Mr Morarji Desai has no need to look the gift horse of share market activity in the mouth

The way is thus clear for him to build constructively on the psychology of hopeful expectations now prevailing in the nation. Already the government may take credit for having contributed to that psychology. There has been a continuing relaxation of commodity controls, a more realistic government attitude towards pricing of those products of industry which still continue to be regulated in some way or the other, a persevering effort to relax, rationalise or simplify procedures relating to industrial licensing, capital issues control and foreign collaborations and, above all, some signs of a healthy, reformist approach to fiscal policy.

Mr Desai's own personal contribution has been invaluable in some of these directions. Of particular importance is the stand he has taken with regard to the investment commitments of a fourth Plan. By striking out boldly and resolutely for a programme of public investment which will not unduly strain the resources of the economy or interfere with

the progress of the recovery from the recession or the prospects of expansion in the future, Mr Desai has reassured public opinion that there will not be any irresponsible adventurism in the mobilisation of resources for development, particularly through additional taxation at the centre. Better still, in speeches delivered on important occasions or in addresses to leading business organisations, Mr Desai has been giving expression to a willingness to examine responsively the possibility of relating the government's fiscal purposes and proposals to the requirements of expanding industrial activity. No wonder, then, the share markets have brightened up during these pre-budget weeks, and it is not surprising either that their optimism is being widely shared in the nation.

All this would seem to place a heavy responsibility on the Deputy Prime Minister in his capacity as Finance Minister. There is a tremendous obligation on him, for instance, to avoid additional taxation of substance. He had shown commendable restraint in this matter in the budget for the current year which sought a net additional tax revenue of only Rs 26 crores to the centre. This was, relatively, a modest amount and Mr Desai quite properly justified his moderation in terms of the recession in industry, the adversity in the countryside and the rise which had taken place in the price level and the cost of living.

There can be no doubt at all that this wise fiscal decision has been invaluable in easing the strains on the economy and assisting in its recovery. These strains have still not disappeared and the recovery is yet to be completed. As Mr Desai himself has been saying over and over again, the economy needs time for recuperation and for generating further resources for development. What we are witnessing, in other words, is a process of transition. The logic of this situation is that the Finance Minister should continue with the policy of fiscal restraint and moderation he initiated last year. Whether he would do so, that is, whether he would avoid imposing substantial additional taxation is naturally the 64,000-dollar question in this month of the budget.

Mr Desai, unfortunately, is likely to have to reckon with a certain degree of deterioration in the budgetary outlook. Thanks to the interim recommendations of the fifth Finance Commission, the centre will have to transfer to the state governments additional resources to the extent of Rs 90 crores. Repayment of deposits under the Compulsory Deposit Scheme will amount to a liability of the order of Rs 30 crores on capital account. The expenditure on administration will be at a higher level, thanks to increases in the emoluments of central government employees. Defence expenditure may make larger demands since the government has reportedly failed to contain this expenditure within a limit of Rs 1,000 crores. The situation is further complicated by uncertainties about foreign aid. Although utilisation of aid still in the pipeline may ease the position to some extent, the Finance Minister will necessarily have to satisfy himself with a conservative estimate of the extent of budgetary support that may be expected from the rupee proceeds arising from external assistance, particularly new commitments of aid.

The revenue possibilities, however, should serve to improve the outlook to some extent. The revenue from customs, it is true, has been declining. From 1967-68 and through the current financial year, the yield from import duties has been suffering in consequence of a reduction in machinery imports, which is due partly to the slackening of industrial expansion and partly to a decline in the amount of financing available through foreign aid. Export duties, which became a significant source of revenue in the wake of devaluation, are gradually losing their revenue-potential and are becoming difficult to sustain.

In the seven months between April and October, 1968, customs collections had amounted to Rs 266 crores as against Rs 301 crores gathered during the corresponding period of 1967-68. At this rate, the budget estimate of Rs 539 crores does not look like being realised and, so far as the current financial year is concerned, the government should perhaps be prepared for a considerable shortfall on account of customs. The question, however, is whether customs will recover in 1969-70. It could perhaps be said safely enough that the yield from import duties, at any rate, will not continue to decline. It is, of course, highly doubtful that this revenue source will recover substantially soon. Such improvement as there may be in its yield in the next financial year will probably be slight indeed.

Gains elsewhere, however, could be considerable. Excise duty collections during April-October last year were Rs 702 crores, as against Rs 636 crores collected over the corresponding months of the previous year, and the indications are that the budget estimate of Rs 1,266 crores for the current year should be easily realised. This source of revenue may be expected to expand further in 1969-70, thereby contributing to an improvement in government receipts.

As for the direct taxes, the experience of yield from corporation tax, which was unsatisfactory in 1967-68, seems to have taken a turn for the better in the budget for 1968-69. Further improvement could be expected in this direction since the profitability of companies is looking up. Another encouraging trend of some significance is that the administration of the income-tax seems to be steadily improving. This was mainly responsible for collections exceeding budget expectations in 1967-68 and it is interesting to note that, in the current financial year, collections up to the end of October had aggregated to Rs 136 crores in comparison with the corresponding collections of Rs 112 crores in the previous financial year. Here, again,

is a source of revenue which may be expected to give better budgetary support to the government in 1969-70.

The gist of this broad and brief evaluation of the trends in taxes is that government should certainly be able to meet a good part of such additional liabilities on revenue and capital accounts as it may have to shoulder in the new financial year with the increases that are likely to be realised in tax receipts at existing levels of taxation.

II

From the foregoing analysis it follows that the task which Mr Morarji Desai faces in budgeting for the conduct of the government in 1969-70 is somewhat more strenuous than the corresponding effort he had to make a year ago in drawing up the budget for 1968-69. In other words, he has now to cope with a larger deficit through a combination of small savings, open market loans, additional taxation and deficit financing. In the current financial year, the budget estimate allowed for net receipt from internal market borrowing of Rs 61 crores and net small savings of Rs 120 crores. In view of the improved liquidity of the banking system, it is possible, in the judgment of competent observers, for Mr Desai to make a bolder bid for the personal savings of the community or the resources disposed of by the banking system. A net receipt of Rs 160 crores under market loans and Rs 140 crores under small savings is widely considered to be a reasonable aim in the central budget for the next financial year. It is hoped that Mr Desai will give full weight to these possibilities and reactivate the government's borrowing policy and machinery so that its reliance on the voluntary savings of the community may at last come to be given due emphasis.

Should Mr Desai decide to act in this manner, the necessity of his having to resort to a combination of additional taxation and deficit financing will be reduced to that extent. In the budget for the current year Mr Desai was called upon to deal with a deficit of Rs 315 crores. He attempted to bring it down by imposing additional taxation which was expected to yield a net revenue of Rs 26 crores to the centre. The gross additional revenue estimated from the tax measures was, of course, larger, viz., Rs 91.51 crores (inclusive of the proceeds of the increased postal and telegraph rates). It may be added that the net amount of an additional tax revenue indicated here has been arrived at after allowing for tax reliefs and concessions granted in the budget. This means that the additional tax measures as such aimed at a gross revenue of an order well above the Rs 100-crore mark. Mr Desai's description of this fiscal operation as "minor plastic surgery" in his budget speech last year was thus an exercise in relativity.

It is highly probable that we will again be treated to a "minor" fiscal surgery of this kind. In other words, the gross revenue which Mr Desai may seek through new tax proposals will once more be probably of the order of Rs 100 crores. Within this fiscal framework he may be expected to give excise duty relief to certain hard-pressed industries. The government has already been committed to extending sympathetic consideration to the cotton textile industry. The claims of the overtaxed road transport industry are no less urgent or dynamic, but they have probably not received the same propagandist treatment. It is to be hoped that Mr Desai will not be less sensitive because of this to the importance of the road transport industry being given reasonable encouragement for growth.

Among export industries, the forthcoming budget cannot avoid taking a decision on the total abolition of the imposts on tea and jute manufactures. The successive reductions in these duties from their original post-devaluation rates have not proved adequate in the changed circumstances of the international trade in these products. Apart from relief from excise or export duties, the textile and jute industries have also been pleading for priority status in respect of development rebate or taxation of profits. Here, again, the government is to be expected to act more with an eye to the future of these industries than in any undue preoccupation with its own immediate requirements of revenue. There is a feeling in the country that while the government has rightly been solicitous about the newer industries, it has tended to be wrongly complacent over the solvency or growth of traditional industries. There is great pressure on the government to reconsider its position in this regard and Mr Desai's forthcoming budget should, in the natural course, show some response to this demand.

In the field of personal taxation, Mr Desai gave a clear hint in his last budget speech that his next budget would present a reform in depth of personal and corporate taxation. The Bhoothalingam report has given grounds for believing that this reform could be undertaken for increasing the yield from income and corporate taxes over a period without any enhancement of rates at the points where saving or other productive economic activity may be prejudiced and, indeed, after providing for relief of the tax burden at these points. It is a well-known fact that under the leadership of Mr Desai, the Finance Ministry has been giving thought to possibilities in this direction not only in the light of the Bhoothalingam report but also in terms of a number of suggestions made by expert or professional bodies. Against this background, it is reasonable to expect relief in corporate taxation, with a possibility that even personal taxation may not be entirely excluded from such constructive review as the Finance Minister may undertake of the existing structure of direct taxation. In one important respect, viz., in the matter of incentives for individuals to save and invest in equities, the existing provisions of the taxation of personal or corporate incomes are demonstrably proving inadequate. It is difficult to see how Mr Morarji Desai can avoid acting to improve this situation if he means to claim

that he is budgeting for helping the community and the government in mobilising resources for economic growth.

Mr Desai will probably not be able to secure for the financial year 1969-70 much more of net revenue through additional taxation than he sought to do for 1968-69. In other words, while the new tax levies themselves may be of the order of Rs 100 crores, the net accrual to the centre, after the states have been given their share and the tax reliefs and concessions have been provided for, may not be much more than Rs 30 crores. This would leave Mr Desai with a budgetary gap to be bridged by deficit financing, which may be as large as that in the budget estimates for 1968-69. The actual size of this deficit would depend very largely on the provision which the Finance Minister desires, or is asked to make for the buffer stock in foodgrains. It has been reported that the allocation of Rs 140 crores made for this purpose in the current financial year has not been fully utilised and that, as a result, there has been some relief in the extent of deficit financing needed. If the government's food regulations are relaxed and if normal trade across state boundaries is permitted to a greater extent in the light of expanding food production, the scope for buffer stock operations will be reduced. Again, there is no reason at all why the Food Corporation of India or other official or semi-official agencies should not be persuaded to depend more and more on bank credit rather than on government finance. These possibilities have to be explored if Mr Desai desires to cut down resort to deficit financing to the minimum. As it is, the range of deficit financing that may be required in the next financial year would seem to lie in the region of from Rs 200 to 300 crores depending to the extent to which the government decides to lock up funds in the foodgrain buffer stock.

At this point, it is rather academic to discuss the pros and cons of deficit financing. Deficit financing can be eliminated only if the government is prepared to cut down its disbursements by several hundred crores of rupees. Whatever the theoretical merits of this solution may be, it is not a feasible proposition as an immediate budgetary exercise. While the government, undoubtedly, has the responsibility to economise wherever possible, it is doubtful that it will make any significant difference to the budgetary outlook as has been discussed here. Given this hard fact, the only question is what marginal adjustments can wisely be made between the roles which additional taxation and deficit financing respectively may be called upon to play. It has been suggested earlier that even gross additional taxation of the order of Rs 100 crores may result in a net additional accrual of only about Rs 30 crores to the central government. Thus, despite substantial effort at new taxation, the government would still find itself compelled to resort to deficit financing.

There is some relief in the government and in the country at large that the deficit financing employed in the current year to the extent possibly of Rs 240 crores has been absorbed by the economy without any accentuation of inflationary pressures. The general price level, indeed, has gone down slightly following an appreciable decline in food prices. With farm production having risen to higher levels and promising to progress further, the capacity of the economy to accommodate an increased flow of money supply may be held to be improving. Further progress in the monetization of the rural sector with the expansion of banking in the countryside under the new dispensation of social control may well contribute towards containing the inflationary potential of an expansion in money supply. In any case, with industry recovering from the recession, exports picking up and the capital market showing signs of coming alive, the increasing liquidity in the banking system may reasonably be seen as an aid to economic expansion rather than as a threat to economic stability.

All the same there is no room for any complacent assumption that another substantial dose of deficit financing will be absorbed by the economy without undue pressure on the price level as has been the case in the current financial year. All that may reasonably be expected is that given intelligent monetary management, the government should be able to keep the inflationary potential in check. As had been suggested earlier, a vigorous borrowing programme should help the government to augment its own resources and thereby be less dependent on deficit financing. In addition, a large and successful borrowing programme should also exercise a healthy discipline on the money supply released by deficit financing.

Again, the increased liquidity of the banking system may be turned to the benefit of the economy by the continuous liberalising of credit facilities, particularly for farm production and exports. The central government may probably decide to cut down subsidies on agricultural inputs. Although this decision may be intended, in the main, to cut the pressure on government funds, it will have the additional advantage of shifting the emphasis from subsidies to credit facilities in the scheme of government assistance to farming and farmers. This would be a wholesome changeover as this would be a highly desirable way of persuading a part of the rising agricultural incomes to be used for financing further agricultural progress. This process would be furthered, of course, if the current expansion of banking activity results in the linking of bank lending to agriculturists with the mobilisation of bank deposits in the countryside.

Finally, it should also be possible for the government to turn the increasing liquidity of the economy generally and the banking system in particular to good account by offering positive encouragement to the capital market. While this is best done by a budget and a fiscal policy which offers no further discourage-

ment to saving or investment but are, on the contrary, helpful to both, certain supporting measures would be welcome. There is, for instance, need for a review of official attitudes towards bank lending against shares. The Reserve Bank has been encouragingly active in prodding commercial banks to extend credit facilities more and more freely to priority sectors, such as agriculture, small industries and exports. This apart, there has also been a general thawing of credit control. The stock exchanges have already profited to some extent from this broad development and the position now seems to be that bank credit is once again becoming available for transactions in shares. The next step may well be towards the lowering of the cost of bank loans against shares. These loans are now available generally at the ceiling rate of from 9 to 9½ per cent. The Finance Ministry and the Reserve Bank should consider the question of indicating to the banks that there would be no objection to some lowering of the rate of interest on bank credit extended to transactions in shares. If the cost of bank money goes down by about one per cent or so, the improvement which has now taken place in the availability of bank credit for investment in equities will be more effective in contributing to the revival of the capital market.

The budget, therefore, is to be seen as the core of the economic policy for the new financial year and also as its main instrument. That policy, as has been indicated in this discussion, ought to include much else in constructive decision-making if the economy is to be able to make most of its resources or potential for growth. Mr Desai's performance on February 28, will be judged by this comprehensive criterion rather than by the narrow book-keeping of the pluses and minuses in his budget estimates.

HSL's Balance Sheet

THE CELEBRATION of its steel jubilee a few days ago by Hindustan Steel Limited (HSL) is an occasion for assessing the working of the company. During the first 15 years of its operations, to mark which the steel jubilee was celebrated from January 19 to 26, HSL has witnessed many ups and downs. While, for instance, the HSL management may take pride in its achievements on the export front, the losses it has been accumulating over the years are staggering.

To take the bright patches of the picture first, it is gratifying to note that HSL has made its mark on world markets in a short span of barely five years. It started exporting steel in 1963-64 when it marketed abroad goods worth about a crore of rupees. Last year its exports aggregated Rs 30.96 crores. This formed nearly 56 per cent of the total iron and steel exports from the country. In 1963-64, HSL's share in exports was just about 20 per cent. This year HSL hopes to export its products to the tune of nearly Rs 40 crores, which will be nearly 60 per cent of the likely total exports of iron and steel. Today HSL exports to as many as 30 countries, included in which are such sophisticated markets as the United States, Britain, the Soviet Union, Australia and Japan.

The compulsion to find markets abroad owing to the recession in domestic demand, the closure of the Suez Canal and the liberal government support have undoubtedly played a considerable role in stepping up exports of iron and steel, but the efforts made by the HSL management at export promotion have been no less praiseworthy. It has apparently been no easy task to book several bulk orders in the face of fierce international competition. These include export of (i) 93,000 tonnes of rails to Iran; (ii) 13,600 tonnes of API pipes to New Zealand; (iii) 80,000 tonnes of billets to Ceylon; and (iv) 5,000 tonnes of wheel sets to South Korea. Substantial orders for the supply of rails to Malaysia, Sudan, Ghana and Turkey have also been secured. The Soviet Union is to be supplied, during the three-year period to 1970, 600,000 tonnes of angles, beams and channels. If HSL continues its efforts at export, this country may be expected to emerge as an important exporter of iron and steel in due course. The range of steel exports should also expand when the recently completed diversification programmes of HSL go into full production.

Another noteworthy achievement of HSL during the first 15 years of its existence has been the setting up of the Central Engineering and Design Bureau. The consultancy services of this bureau have already been utilized in the expansion of the company's plants at Rourkela, Durgapur and Bhilai from one million tonnes each to 1.8, 1.6 and 2.5 million tonnes respectively. The bureau has also handled the engineering of the Barsua ore beneficiation plant, the special steel units at Rourkela and Durgapur and the naphtha steam reforming unit of the Rourkela fertilizer project. With assistance from the Soviet Union, the bureau is proposed to be developed soon into a Central Designs Organisation for the designing of both ferrous and non-ferrous metal plants. If an agreement now being negotiated with the United Engineering and Foundry Compay, Pittsburgh, USA, materialises, it will be in a position to undertake detailed designing of plants and equipment for various industries. The future steelworks in the country are proposed to be set up by utilising the services of this bureau only. The bureau has recently taken up, at the instance of the Singapore government, a techno-economic study for the establishment of a billet steel mill there. This should indicate its international potential.

The role of HSL in augmenting the supplies of steel in the country and thus fostering industrialisation has also not been insignificant if note is taken of the fact that the expansions of the two private sector steel plants—those of Tata Iron and Steel Company (TISCO) and Indian Iron and Steel Company (IISCO)—beyond two and one million tonnes, respectively, though talked about in mid-'sixties, have yet to be finalised. The recent expansions of HSL's units, the setting up of the Bokaro

plant and the drastic downward revision of the future demand in the country to just 7.12 million tonnes of finished steel in 1973-74 and 10.97 million tonnes in 1978-79, as against the mid-'sixties estimate of nearly 10 million tonnes by 1970-71 itself, may now stand in the way of the expansion of the private sector plants. But this situation has apparently arisen only as a result of the recent recession and the last three years' stalemate in the planning process. If HSL had not gone in for the expansion of its units, it is possible that the import bill on account of steel, when the domestic demand picks up in the future, would have grown substantially. It would also have upset the promising export programme. The HSL has also set up the largest alloy and tool steel plant in the country. Its capacity is 60,000 tonnes per annum. It is to be expanded to 180,000 tonnes.

The darkest spot on the HSL canvass obviously is the huge losses it has accumulated. Since the start of production in 1958-59, there have been only two years in which HSL has made profit—1964-65 (Rs 2.14 crores) and 1965-66 (Rs 1.66 crores). The total accumulated loss of the company up to March 31, 1968, amounted to Rs 122.44 crores—nearly 22 per cent of the then equity capital of the company (Rs 552 crores). The total investment in HSL up to March end last year was Rs 1072.9 crores (loans amounted to Rs 520.5 crores). The more distressing fact about these losses, however, is that nearly 50 per cent of them have been incurred in 1966-67 and 1967-68. The loss in 1966-67 amounted to Rs 22.95 crores. In 1967-68, it increased to as high a figure as Rs 40.12 crores.

The huge losses in 1966-67 and 1967-68 should suggest that HSL's working in these two years particularly had deteriorated considerably. Part of these losses was apparently due to the fact that the material and labour costs of the undertaking went up substantially, following increases in railway freight and the implementation of the recommendations of the central wage boards for iron ore, coal, lime stone and dolomite industries. These were not fully counterbalanced by an upward revision in steel prices. But a major portion of the losses obviously resulted from the fall in the utilization of the company's installed capacity as is clear from the following table.

PERCENTAGE UTILIZATION OF CAPACITY

	Hot metal	Steel ingots	Salable steel
1965-66	100	95	91
1966-67	99	88	82
1967-68	87	70	69

No doubt the recessionary tendencies in the economy and the stalemate in the planning process affected HSL's working to a much greater extent than that of the private sector plants, the reason being inflexibility of the product pattern of HSL. Further, the additions to the capacity at all the three units at Bhilai, Rourkela and Durgapur steelworks could not be expected to be utilized immediately on commissioning. There were also power shortages following the unprecedented drought in 1965-66. But the high degree of under-utilisation of capacity cannot be attributed to only these factors, which were beyond the control of the HSL management. The management, of course, cannot disclaim all responsibility for the substantial fall in production resulting from such factors as poor maintenance of plants and labour indiscipline, especially at Durgapur. The Pande Committee's scathing criticism of the deplorable maintenance of the Durgapur steelworks is too well known to be repeated here. As regards labour indiscipline, while there is no denying the fact that the law and order situation in the states where HSL's steelworks are located left much to be desired in 1967 and 1968, the bureaucratic approach of the management to the various personnel matters contributed to no small extent to labour unrest.

The over-capitalised structure of HSL's steelworks and their dependence on somewhat inferior raw materials, compared to the private sector plants, should also have spurred the HSL management to strain every nerve to improve its efficiency. Due weightage is not given to these factors in the formula which determined the prices of steel during the era of controls and even now when ex-works prices are informally fixed by the Joint Plant Committee. In the circumstances, profitability of HSL depends all the more on its efficient operations. But the steps taken by the HSL management in this regard in the form of ore beneficiation, ore bedding, reducing of fuel costs through oil injection or oxygen enrichment in blast furnaces, etc., have been belated and halting. Then, the HSL management itself was in disarray till lately. Even now the HSL board is not functioning with full complement; the three full-time directors to be incharge of personnel, finance and commercial activities under the reorganisation scheme are yet to be appointed although this reorganisation was approved nearly a year ago.

This year's working of HSL, however, should show some improvement over the last year's performance as not only higher exports but also reviving domestic demand should help improve utilization of the company's capacity. The diversification effected in the production facilities through the addition of a wire rod mill at Bhilai, a skelp mill at Durgapur and erection of such new units at Rourkela as the galvanising line, electrolytic thinning line, electrical sheet mill for cold reduction of sheets, etc., should enhance the profit-earning capacity of the company. The completion of the expansion programmes of Bhilai, Rourkela and Durgapur to 2.5, 1.8 and 1.6 million tonnes capacity, respectively, should bring down the block capital costs per tonne of steel. But if HSL has to wipe off the staggering accumulated loss expeditiously and start earning profit commensurate in volume to the huge investment that has gone into it, the task that lies ahead its management is indeed arduous. Will the new management prove equal to it?

Rural Roads, the Key to Rural Prosperity

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IT IS not necessary to emphasise that, in a country such as ours, with over half a million villages inhabitated by nearly eighty per cent of the population, and with agriculture as its mainstay, the road to prosperity goes through its villages. Naturally, therefore, in all the plans, special emphasis has been laid on the development of an adequate network of roads for the effective exploitation of the rural economic potential. Thus the document 'Approach to the Fourth Five-Year Plan', specifies the need and urgency for the improvement and expansion of roads in rural areas and suggests that the development of rural roads needs to be given priority, as it will assist in increasing agricultural production. The report adds that commercialisation of agriculture, which is a condition precedent to the intensification of the productive effort, cannot get universalised without an adequate system of rural roads.

Farm production depends primarily on the ease with which a variety of inputs can reach the site and the resultant produce move out to the centres of distribution and consumption. If we are to break through the centuries old stagnation of the countryside, it is necessary to induct into the village various inputs such as irrigation, fertilisers, better quality seed and improved methods of farming. But all these inputs can be fully effective only if the village is able to dispose of the increased—and the qualitatively improved—produce resulting from this development. At the same time, following the induction of these inputs, the villagers will be able to diversify their products by growing more of fruits, vegetables and cash crops. They will also be able to raise a good deal more of poultry, fish and dairy products. They will, however, not be able to derive any substantial benefit from these achievements unless they are provided with a suitable means for sending out these goods and establishing contacts with the outside world. Thus, it is only by investing on roads that all these activities would become feasible and profitable.

Key Factor

The other social advantages emerging from rural transport such as spread of education, medical facilities, family planning measures and general incentive for putting in greater effort in all fields would be added benefits, which cannot be directly evaluated in terms of money. It has also been noticed that a switch-over to modern methods of cultivation depends very largely on the proximity of an area to an all-weather road. Mobility, therefore, is a key factor of the entire rural development programme and brings into focus the need for a well dispersed network of rural access roads. Rural roads are, therefore, an unmistakable need, without which it will not be possible to break the present isolation of the village communities and to draw them into the mainstream of our national life.

Roads in India have been classified into five categories, viz., National Highways, State Highways, Major District Roads, Other District Roads and Village Roads. Under the Constitution, the Government of India is primarily responsible for roads declared as National Highways. All roads other than National Highways in states are essentially the responsibility of the state governments or local bodies concerned. The "Other District Roads" and "Village Roads", which mainly serve the rural areas thus fall under the category of "Rural Roads" and come within the purview of the activities of the state governments.

The table here indicates the progress of development of rural roads in the country since the beginning of the first five-year Plan:

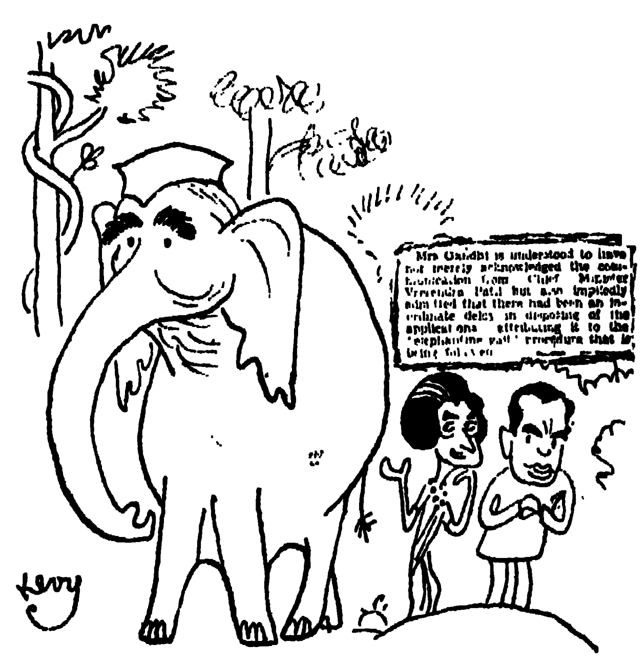
(in lakh kilometres)

	Other District Roads	Village Roads	Total
1951	0.81	1.65	2.46
1956	0.86	2.41	3.27
1961	1.11	3.87	4.98
1963 (estimated)	1.32	6.36	7.68

Considerable progress has, no doubt, been made during these years. We have, however, still a long way to go and cover a lot of ground to connect all our villages. The requirements are so large that only a dynamic and sustained effort can produce the required results in adequate measure.

Thus, in spite of this progress, the present accessibility position of our villages is still very unsatisfactory. A National Sample Survey carried out in 1957-58 revealed that only one-third of all our villages had an all-weather road connection with various centres of daily requirements. More recently, similar deficiencies have been brought to light in surveys carried out in the last two years by the regional transport survey units of the Planning Commission in different parts of the country.

It was found in Gujarat that as many as 35 per cent villages in the state possessed no approach roads at all and another 22 per cent had just substandard connections where culverts and bridges did not exist. The picture obtaining in Uttar Pradesh was that 36 per cent of all villages were devoid of road connections to important markets nearby. In Maharashtra, likewise, the finding was that 40 per cent of



Here is a job for a good elephant boy from Mysore.

all villages were without road outlets to the outer world and a further 34 per cent of villages was served only by kutcha approaches, which became unpassable in the rainy periods.

This brings out the vast dimensions of the problem and underlines the need and urgency for a concerted effort not only to make up for the past backlog but also to catch up with the progress which is envisaged under other fields of development having a direct bearing on our rural economy, e.g., irrigation, manuring, animal husbandry, improved farming, etc.

Financial limitations are the main bottleneck in the way of making speedy headway in the matter. In view of the constitutional responsibility devolving upon states for the development and maintenance of rural communications, the initiative and action rests mainly with them. In order, however, to ensure that some funds are provided specifically for rural roads, the draft outline of the fourth five-year Plan envisaged that the state governments should earmark for rural roads specifically a sum equal to at least 20 per cent of their roads allocations and that the centre would provide to them a grant-in-aid equal to 40 per cent of that 20 per cent as part of the overall central positive assistance to states. However, in spite of this positive initiative on the part of the central government, not much progress seems to have been made. It is hoped that, in the years to come, the state governments will be able to allocate larger funds for the improvement of their rural communications.

Concrete Suggestions

Recently, this matter also came up for consideration at the seventh meeting of the Transport Development Council, which was attended by the representatives of all the state governments at the ministerial level. In order to ensure the provision of larger funds for rural roads, the council recommended that, as against the present 20 per cent, the earmarking of funds for rural roads by the state governments should be raised to 25 per cent. They further recommended that concrete suggestions, priorities and proposals for rural roads should be formulated by the states for framing their plan proposals and that the state governments should also devise measures for ensuring that the amounts earmarked for rural roads are actually spent on them and not diverted for other programmes. These recommendations have been communicated to the state governments for being kept in view while formulating proposals for their fourth five-year Plans.

In order to assist the state governments in the formulation of realistic programmes for the development of rural roads under the fourth five-year Plan, the Government of India appointed some time back, a one-man committee consisting of Mr H. P. Sinha, a former Director General (Road Development), to assess the requirements of rural roads in the country as a whole, suggest a phased programme for their development and advise upon a mechanism for their proper maintenance. The committee submitted its report recently. Copies of the report have since been sent to state governments for keeping in view the recommendations of the committee while formulating their fourth Plan proposals.

The committee envisages the development of a total length of 5,54,400 kilometres of rural roads over a period of 20 years made up as under:

Other District Roads	2,30,400 kilometres
Village Roads	3,24,000 kilometres
Total:	5,54,400 kilometres

The development of these roads, as low grade all-weather roads, is estimated to involve a total expenditure of Rs 1430 crores spread over a period of 20 years. The objective underlying the programme of rural roads recommended by the committee is that, over a period of 20 years, it should be possible to bring every village

(i) in a developed and agricultural area, within four miles of a metalled road and 1.5 miles of any road;

(ii) in a semi-developed area, within eight miles of a metalled road and three miles of any road; and

(iii) in an undeveloped and uncultivated area, within 12 miles of a metalled road and five miles of any road.

The committee has not suggested any programme for individual states. Its assessment is for the country as a whole. Since, however, the requirement is very heavy, the committee has suggested certain priorities in the development of rural roads in the various regions of the country. These priorities are indicated below:

(i) Give preference to those areas where special steps have already been taken for rapid rise of production such as the Intensive Agricultural Development Programme blocks. In such areas, the roads will not only bring quick results but will also pay for themselves.

(ii) Select those villages which are located near an existing road system so that those villages could be connected to the road system by constructing a few short lengths of rural roads;

(iii) Give priority to backward areas where road communication would open up the countryside and generate all-round activity; and

(iv) Selection of areas which do not have any other means of transport, e.g., railways.

The committee has added that in order to meet the various conflicting claims for priority, it would be desirable to set apart a certain percentage of the total budget among the various areas. The largest share, say, 40 per cent should go

to the first as that investment will bring the maximum early return. The other three could each be allocated 20 per cent of the total funds earmarked for rural roads. The inter-se priority in each category can be decided upon the basis that, wherever the public provide free land and their share of expenditure earlier, such areas should have higher priority.

The problem of rural roads does not end with the initial construction of new roads. It is even more important to have a satisfactory arrangement for their maintenance. At present, there are no satisfactory arrangements for the proper maintenance and repairs of roads in the rural areas, especially those constructed through the various self-help schemes. In order to ensure that the thousands of miles of roads which are being constructed with public participation under these programmes retain permanent utility, it is essential that soon after their construction, the state governments or other local authorities concerned should take them over for further improvement and maintenance. Unless such action is taken, the entire work done under the various self-help schemes will go to waste.

This also brings in the problem of proper co-ordination in the development of rural roads. At present, nearly half-a-dozen agencies deal with rural roads, e.g., panchayat samitis, panchayats, zila parishads, community development authorities, state PWDs, etc. In order to ensure that the development of rural roads proceeds in an integrated manner, there should be district development plans which should, in turn, be so drawn up as to dovetail with the development plans of the state. Actually, most of the states have already drawn up such district development plans for rural roads. Further, there should be an arrangement to provide sound technical guidance for the proper development and maintenance of these roads by the various local bodies. At the last meeting of the Transport Development Council held in Mysore in June 1968, it was recommended that all the state governments should set up separate highway departments with a separate cell for rural roads. To begin with, it may be enough if such rural cells are created by all the states in their PWD organisations. The Government of Tamil Nadu has already a separate department for dealing with highways and rural works. The last but not the least important point to be emphasised is the cost of constructing these roads. As is well known, our resources are limited and the demands many. In order, therefore, to be able to derive the optimum results within the available resources and other competing claims on those limited resources, the country should give serious thought to the cost aspect. Actually, no programme for the development of rural roads which does not ensure the use of the locally available materials can be practical for the country. Research and investigations in this direction are already being carried out in our research laboratories and steps have been taken to apply the results of the research to the construction of low-cost roads on a field scale and to popularise the promising new techniques. What is needed now is an evaluation and follow-up of this action and planned programmes for its extensive utilisation.

In conclusion, it may be reiterated that the development and expansion of rural roads is an essential condition for the development and dispersal of economic activity on a national scale such as will secure not only the acceleration of economic growth but also widespread distribution of its benefits among the rural masses of India. Rural India needs a lobby for its road requirements and it is only enlightened and progressive public opinion that can give the necessary impetus for rural roads, which is the key to rural progress.

Educational Inflation

K. SANTHANAM

THE COUNTRY is suffering from a triple inflation. The first and most serious is that of population. While some brave attempts are being made to control population and diminish its growth, it is a long-term process. In the short term, a reduction of the death rate through improved sanitation and medical relief is likely to be greater than the reduction of the birth-rate through the family planning campaign as it is being conducted now.

The second inflation is that of money which has played havoc with the economy for the last four or five years. This has been discussed so thoroughly that I need not say anything about it except that I hope the fourth Plan will not give rise to a new inflationary spiral.

The third inflation is that of education, on which sufficient attention has not been bestowed. It has often been claimed that the greatest achievements of our planning are in the field of education. This is partly true. The enrolment in the primary stage has risen from a little over 19 million in 1950-51 to over 51 million in 1965-66 and may reach 70 million in 1970-71. In terms of the percentage of the age group 6-11, the rise will be from 42.62 to 92.2. As our goal is universal primary education, this is an achievement to be proud of, though, if we turn our attention to the calibre of the elementary school teachers and the quality of education they are imparting, our rejoicing will have to be considerably moderated. In the age group 11-14, the enrolment is expected to reach in 1970-71, over 47 million against 13 million in 1950-51. The quantitative increase is to be welcomed as the Constitution has enjoined universal compulsory education even for this group. Here again, it is the quality that requires a great deal of attention and improvement.

The enrolment in secondary education (classes 9 to 11) has increased from a million to nine million. Though even the latter is only 22 per cent of the age group 14-17, the major issue is whether the employment opportunities for this group have expanded proportionately. As in other countries, education is becoming universal up to the age of 16 or 17, it may not be a matter of serious concern even if a percentage of persons with secondary education have to revert to agriculture or weaving or other traditional occupations.

Close Relation

It is when we come to the stage of university and technical education that a closer relation between education and employment has to be established. The enrolment in the universities rose from three lakhs in 1950-51 to 11 lakhs in 1965-66 and is expected to reach 16 lakhs in 1970-71. In the case of technical education, enrolment in the diploma courses increased from 5,000 to nearly half a lakh in 1965-66 with capacity for additional enrolment of nearly 3,500 per year while in the degree courses the increase was from 4,120 to 24,700 with capacity for increase of over a thousand per year.

So far as engineering and other technical degree and diploma holders are concerned, the increase in the number of engineering colleges and their enrolment capacity are supposed to be based on a steady expansion of growth in the national income of not less than 5 per cent annually. But during the third Plan, the actual increase was less than half of this rate and since the end of this Plan, there has been practically economic stagnation. As a result, a large number of qualified technical personnel are unemployed. The actual figures are not available but it is surmised that a third of the graduates and diploma holders from the engineering colleges and polytechnics are not able to find suitable employment.

In the case of graduates of arts, science and commerce

from the universities, no real effort was ever made to co-ordinate even on paper the annual output to the scope for employment in the services and industrial organisations. I doubt if even half the number of graduates emerging from the universities are able to find reasonable employment.

While the numbers have increased, the quality of higher education both in the general and technical fields has declined. In the draft fourth five-year Plan, it is said: "A survey in 1964 revealed the engineering colleges and polytechnics had an overall shortage of 35 per cent in teachers, 53 per cent in equipment, 51 per cent in instructional buildings and 55 per cent in hostels. As a result, there is a high rate of wastage particularly in polytechnics." In the field of general education, the position is even worse. One of the consequences of deterioration of quality on the one hand and the diminution of chances of employment on the other is the growing student unrest and indiscipline. During the first 10 years of Independence, the students were so confident of employment as soon as they finished their educational courses that except in a few places, there was no student unrest. In the last two years, it has become almost universal. On the most flimsy pretexts, students walk out of their classes and stage unruly demonstrations. The recent outbursts, occasionally resulting in violence, which have been witnessed in Madras against the change in the timing of the English news broadcast from 8 a.m. to 8-15 a.m. shows the extent of the malady. It is difficult to imagine why the students should be disturbed at such a change though it may be confessed it is no less difficult to understand why the authorities of All India Radio should disturb the English news timings to accommodate Hindi news, knowing fully well the state of fanatical Hindi phobia which has developed among certain sections of the student population in Tamil Nadu.

Urgent Measures Needed

I am convinced that urgent measures are needed to check the educational inflation. In respect of technical education, the only measures which need be taken are stern refusal to permit the opening of new technical institutions and restriction of enrolment to the capacity for employment. This will undoubtedly be difficult as both the state governments and technical institutions do not like to face the unpopularity of rejecting large numbers of applications but this should be much easier than facing the consequences of large-scale unemployment later.

With respect of graduates of arts and sciences, this procedure is not practicable. Even if no new colleges are permitted, the output of the existing institutions is bound to be considerably in excess of requirements. Two solutions may be considered in this connection. Mr R. A. Gopalaswami, ICS, who held high offices in the union and Tamil Nadu governments and whose last offices were those of chairmanship of the Manpower Institute and membership of the Education Commission, has proposed a radical solution. He has suggested that educational training for the higher services of administration should be separated from general university education and made into a special course in the same way as engineering or medicine. In other words, a new course for management and administration should be started in every university for which only such numbers of students of talent should be admitted as are likely to be absorbed by the services. The possession of a degree in this course will be a condition precedent for appearing in examinations held by the union or state public service commissions. This undoubtedly is a logical solution for co-ordinating higher non-technical education with service requirements, but unfortunately it may paralyse the university education in general as most of the students joining the science and arts courses are gambling on the chance of entering the services.

Another solution for the inflation in higher non-technical education is to raise the minimum educational requirements for the services. It is possible now to insist that even for the clerical grades, a degree should be the minimum qualification while a post-graduate degree may be made the minimum for admission to UPSC examinations. In one way or another, it is imperative to co-ordinate the output in universities with the actual requirements of employment in administration, education and non-government establishments. The contention of educationists that the main objective of education should be knowledge and culture and not employment was perhaps true while education was the monopoly of the richer classes but today it is a claptrap which can only lead to dangerous social unrest.

The Mid-Term Elections

Our Correspondent

THE MID-TERM elections, forced on the four states—UP, Bihar, West Bengal and Punjab—by the inability of any one party to secure a stable majority, are, in terms of the population covered and the number of voters involved, a miniature general election. The fortunes and the well-being of approximately 170 million people—one third of India—are affected; the voters number around one hundred million, five million more than in the 1967 general elections in the four states. Some 1100 seats are at stake; there are 6656 candidates (most of them set up by some 30 political parties, recognized and unrecognized) contesting those seats, though this number is less by 116 compared to the number of candidates in the 1967 general elections.

As we go to the press, the results of the mid-term elections are still coming, and, therefore, an analysis of the election results must wait for inclusion in our next issue. In this article, a background analysis is attempted indicating the programmes of parties and the number of candidates contesting the elections, and giving some account of the electioneering campaign which, in a democracy, is most crucial in determining the results of the elections and the kind of governments that may be formed.

It will be recalled that for varying periods all the four states were under non-Congress or ad hoc coalitions embracing diverse and sometimes opposing elements in unhappy alliances, though they called themselves by such an attractive term as the United Front or allied one. The cementing force of these alliances was anti-Congressism; the positive content of the alliances was not adequate to keep them going. Defections from one party to another, often motivated by political opportunism, added to the uncertainties of support which the coalition governments could rely on. The result was the imposition of President's rule in these states, though only for a temporary period. In retrospect, it seems correct to say that the imposition of President's rule was a salutary restraint on power-hungry politicians and unscrupulous political parties. The electorate has now an opportunity to correct them.

As noted above, there are some 30 political parties and factions in the field wooing the electorate. The major contestants are, of course, the nationally recognized parties—the Congress, the Jana Sangh, the Swatantra Party, the Samyukta Socialist Party and the Praja Socialist Party. In UP and Bihar, in addition, ex-Congressmen organized in the Bharatiya Kranti Dal and the Lok Tantrik Dal are expected to give a tough fight; in Bengal a United Front of several leftist parties is challenging the Congress; and in Punjab the Akalis have a sizable following and their joining forces with the Jana Sangh is expected to have an important impact on the results of the elections; the two communist parties everywhere have some support.

Election Promises

What do the parties offer to the electors? It is, of course, understood by the voters, from the experience of four general elections, that election promises are not to be taken too seriously; nevertheless these programmes offered by parties have some value in so far as they indicate the broad political approach which they have in mind and which they may, according to circumstances, think of implementing. It will be adequate if we illustrate party programmes with reference to the largest of these states, the UP. It is natural that the election manifestoes issued by the various parties here are a response to the acts of commission and omission of the SVD government (the Samyukta Vidhayak Dal) during its 10-month existence (I avoid the term 'rule' because it hardly ruled) in the state. Thus the Congress harps on stability of administration; the Jana Sangh draws the natural lesson that a coalition government needs for its success like-minded constituents—an unexceptionable conclusion. The Bharatiya Kranti Dal, which Mr Charan Singh (former Chief Minister in the SVD government) has organized, states in its manifesto that the party "does not believe in methods of political agitation and propaganda which are not based on Gandhian principles of truth and non-violence"—a reaction to Mr Charan Singh's own experience as Chief Minister when the constituents of the ruling coalition themselves organized agitations and created problems of law and order. Fasts unto death, gheraos, dharnas and civil disobedience are the surest invitation to chaos; the BKD, if returned to power, would curb "with a strong hand all subversive and disintegrating tendencies whether they raise their head in the name of political ideology, region, language or community."

On the other state issues such as economic problems, corruption and language policy, the parties have much to say, but lack of space prevents their mention here.

Coalition Ruled Out

On one issue of more than local importance, something must be said: whether, if no party gets an absolute majority, the parties will be willing to form coalitions. The SSP rules out a coalition with the Congress in all circumstances; the Swatantra Party chairman would like the Congress to share power with other democratic parties if no party secures an absolute majority; the general secretary of the Jana Sangh thinks that "as things stand, a coalition with the Congress is ruled out"; this, as Mr A. B. Vajpayee, President of the Bharatiya Jana Sangh, stated clearly on January 28, 1966, means that "the Jana Sangh has decided to keep the issue open". The spokesmen of the Congress have been affirming that coalitions are, for the time being, ruled out. "We will not share power with any one else. If we are not returned in an absolute majority, we will remain in the opposition". Public opinion polls seem to indicate that no party is likely to command an absolute majority in any of the four states; if their verdict comes true, will the Congress continue to remain in the opposition? Too soon to say.

Finally on electioneering. The newspapers abound with reports from correspondents and special correspondents regarding the methods of canvassing votes adopted by parties and candidates as well as the response of the voters to their call; some of this material must be considered valuable original source material for the political scientist who would like to analyse the foundations of democracy in India; it is to be hoped that universities will give attention to preserve the material and turn some of their scholars to work on it. Here, for instance, is the reaction of a woman voter in Allahabad. When told that Congress would, if returned to power, secure stability to government, quite sensibly she said that stability is a means to an end; what would the Congress use the stability for?—a question which must be in the minds of millions of voters who have not experienced any sensible fulfilment of their rising

expectations during the years of stable administration under Congress governments.

Apart from the growing maturity of the electorate which the above noted response of the voter indicates, a study of the electioneering reports shows (a) the growing expensiveness of elections and the consequent impact of money power in politics; (b) the greater political consciousness shown by the rural woman voter; (c) the part that casteism and communalism continue to play in electioneering; and (d) the more satisfactory arrangements that are being made by the Election Commission for the conduct of elections.

(a) In a vast country such as ours with millions of voters spread over several square miles of territory, elections are naturally costly: election literature and its distribution, contacting the voter through cars, jeeps; buses and bullock-carts, arranging election meetings, the employment of agents—all cost money. The Election Commission's permissible maximum on expenses for an Assembly candidate for UP is somewhere around Rs 9,000; in practice reports say that on the average each contestant will spend some Rs 30,000. The total for some 6600 candidates may well come to Rs 20 crores. (The four state governments, it is reckoned, will spend Rs 3.5 crores to cover revision of electoral rolls, allowances to election staff etc.) It is sufficient here to say that the greater the electioneering expenses, the greater the influenc of money power in the political processes—clearly undemocratic. It is time that a serious study were made of how election expenses may be reduced, if our democracy were to retain its basic values.

(b) That the rural woman voter is showing greater awareness of the meaning of elections and is prepared to exercise greater independence of judgment is a welcome development. The following report from a roadside village on the Delhi-Aligarh road is most interesting. "When it comes to voting, the women of Chittera and villages nearby are very independent. They vote as they like. It is quite on the cards that the men will vote one way and the women another".

Casteism & Regionalism

(c) Reports of electioneering confirm the trend already observed in previous elections that casteism and regionalism continue to play a part in the choice of candidates and the candidates' appeal to the voters for their vote. Here is one report: "Caste and regional considerations rather than national, political or even party labels will decide the fate of the candidates contesting the mid-term poll in this smallest district of Punjab". There are, it is true, bright exception which suggest that some parties such as the Congress and the communist cut across caste loyalties, but those exceptions only prove the rule. The wonder is that in strict political theory, political parties' very function is to serve as an integrating force (as they are to consist of members, irrespective of community, who consider public issues from a national point of view) which in practice they rarely perform.

(d) To ensure that voting is fair and free, several steps have been taken by the Election Commission. More polling stations have been opened—to ensure that a voter will not have to walk more than two miles for the exercise of his franchise; necessarily, more polling personnel have been employed (there will be a total of some 450,000 polling personnel); a code of conduct has been framed for political parties, a rule has been introduced by which presiding officers sign in full the ballot papers before the papers are handed over to the voters; and finally, instructions have been issued by the commission to all election officers to behave in the most impartial, non-partisan and neutral manner and without fear or favour while performing their duties. Thus an administrative framework at least has been provided for a free and fair election.

An Assessment of International Trade

U. N. GHOSH

INTERNATIONAL TRADE has become increasingly complicated in theory and practice in this century. It is now not only the business of traders but also a pain in the neck of governments and a big headache for economists. The traders have of course the simplest of motives, namely, profit-making. They are actuated by nothing else whether the trade is free or shackled. But governments faced with a multiplicity of motives are often distracted, particularly in the developing countries. Between development needs and run-on adverse payments balances they often are driven to contradictory policies. As a matter of fact, economist Harry G. Johnson thinks that a great deal of the measures taken by the developing countries with respect to trade should not be the same as those adopted by the developed countries ('Policy Obstacles to Trade and Development'), and that much of the difficulty that "the less developed countries encounter in increasing their exports is of their own making". It is certainly necessary to examine carefully how far this is true, though Johnson also admits that the attitudes of the developed countries and their policies are also contributory to the difficulty in some manner. What is, however, stressed here is the complex nature of the problem that existing trade presents to the developing nations vis-a-vis development.

Some economists such as Hollis B. Chenery ('Comparative Advantage and Development Policy') frankly state that the principles of resources allocation of growth and trade are in conflict and so they naturally lead to contradictory policy. Indeed this is also a point that needs very close re-examination of the existing situation by governments, for it is a view that is supported by several economists such as Nurkse, Prebisch, Balogh, Myrdal and others. It is necessary that trade should be so oriented as to satisfy the development needs of not any particular less-developed country but of all of them so that the trade principles might be reconciled with development principles as there is no inherent contradiction between the two.

Reconciliation Task

One may suggest that such reconciliation is the particular task of economists in the post-war period. At any rate, Mr James D. Theberge's book* encourages that view, for several articles here re-examine the practice and the theory of international trade as it was formulated by the classical economists, beginning with Adam Smith. Adam Smith's 'vent for surplus' and 'productivity' have been recovered as it were by H. Myint ('The Classical Theory of International Trade and the Underdeveloped Countries') and Richard E. Caves ('Vent for Surplus Models of Trade and Growth'), to show how an isolated country may start development at the least possible cost and to correct the classical theory of comparative costs, or at any rate to fill out the omissions in the statement of theory. However, the point is that so far there has not been any theory of international trade other than that of comparative costs, on which most of the economists depended in later times, extending it as in the Ohlin-Heckscher case,—or relating it to welfare as has been done by Meade. It is, therefore, necessary to restate it, without being as dogmatic as Gottfried Heberler.

The comparative costs theory is not concerned with development in any direct way. It only states an obvious possibility that if each country produced (given full internal mobility and resources) what costs it the least comparatively and exchanged these freely to satisfy all countries' needs, there would be benefits for every country concerned, and the development of the world economy as a whole in the existing conditions. On the face of it, this is impeccable if one grants the skewed distribution of resources and immobility of factors in the international order, and, of course, labour costs. Whether trade practice followed this is not known, but it was not a conclusion drawn from empirical evidence. Trade was swayed by political interests rather than economic. It was a mix-up of political with economic interests of the advanced western nations by which the world was divided between the western industrial producers and the primary producers of the rest of the world. This picture was supposed to conform to the theory of comparative costs. But then in the case of primary producers, mostly colonies and dependencies created in the days when "trade followed the flag", the practice of trade contained deterrent forces, as Jonathan V. Levin has shown ('The Export Economies'), deterrent to development proper.

At any rate, these primary producers feel that the way their countries were developed by traders has caused in the course of time the terms of trade to move against them, and that they have been exposed to frequent fluctuations in international trade. Here the economists have been sharply divided in their views, for from the same data they have drawn contrary conclusions. Nurkse, Myint, Chenery, Balogh, Myrdal, belong to one group while Maizels, Heberler and Cairncross belong to the other group, though the last mentioned thinks that things might have been better for the primary producers. But what practice did cannot be blamed on theory which is after all based on a hypothesis that does not claim to be based on inexhaustible evidence. H. Myint and Hollis B. Chenery and many others have attacked the classical theory while Gottfried Heberler has defended it—but probably the intention of everyone is to reconcile trade and development as this age, called by Eugene Black the "Age of Development".

Eastern Economist 25 Years Ago

FEBRUARY 18, 1944

That the war has undoubtedly increased the money income of the agriculturists and, in the case of a considerable section has also brought about an improvement in their economic condition and standard of living cannot be denied. But before hasty inferences are drawn, it would be necessary to make a sample survey of the farmers' conditions in some representative tracts so as throw light on the various aspects of the question. Which classes of farmers have benefited most from the high prices now prevalent? How far and in what manner have they used their increased incomes to improve their standard of living and to free themselves from debt? What about the smaller agriculturtsis? Have the increased agricultural prices been fully or more than fully neutralized by the increased cost of living? Again what is the disparity in the prosperity between growers of one crop and another? Have the jute and cotton cultivators shared the prosperity equally with the growers of rice and wheat? What about the large class of agricultural labourers? Not until we get answers based on carefully collected data for these and other questions can one venture upon categorical statements. We fain hope that the Agricultural Departments in some provinces and some universites will soon undertake a study on these lines and publish the results.

* 'Economics of Trade and Development'; Ed. by James D. Theberge, M.A. (Oxon); Published by John Wiley & Sons, Inc, USA.

demands. But the point is, how to extend or elaborate the theory of comparative costs so that instead of suggesting "movement along a static production possibility curve" there would be a dynamic economy with enlarged adapting and reshaping capacity for every developing economy. It is no use denying or disproving that trade terms have worsened for the primary producers, nor that fluctuations hampered their development (Alasdair I. Macbean, 'Export Instability and Economic Growth'), for the plain irrefutable fact is that while the industrially developed nations have grown richer, the primary producers have grown poorer, and more disorganised, whether it is for demand deficiency in respect of primary products or supply deficiency, or for other reasons not directly related to trade.

The developing nations or most of them are in an unenviable position vis-a-vis the few developed nations, though, as Harry Johnson remarks, some of the difficulties may be of their own making. It may be that the measures pursued by them, e.g., tariff for import control, discriminatory tariff so far as commodities of import go, quotas, protection for import substitution, etc., are dubious measures, as also capital imports on long-term basis. But economists have not been able to agree as to which of these singly or in combination would be valid. None denies that trade may help, but the problem is to find out exactly how. Opinions differ on every one of the above measures, but each opinion is probably liable to be refuted by empirical evidence. For example, Johnson's 'Tariffs and Economic Development' covers a fairly wide ground theoretically, in search of the 'Optimum Tariff', but the essential problem is that with dynamic systems which refer to an increasing variety of new products, the optimum will change frequently. Besides, it is doubtful if the hypothesis behind the Optimum Tariff is realistic, for international trade is now much less sensitive to tariffs and has found ways o overcoming any obstruction caused by other devices, unless it is a case of complete protection. But even protection is justified by some (Everett E. Hagen, 'An Economic Justification of Protectionism') while R. Prebisch is firmly in favour of import substitution. However, all this does not probably refer to capital exports (or imports), for it is now believed that capital accumulation is necessary for development, and to expedite it capital imports may be helpful.

At any rate it is seen that in the 19th century (and in the preceding) economists believed that the effect of foreign trade was to help raise the general standard of living of the trading countries. Probably such an illusion was created by imports of luxuries. In the present century, it is more or less believed that unless the home economy is sufficiently developed industrially and can give full employment and a fair growth rate to keep pace with population increase, the general standard of living of a population would not rise in the way it should, and trade should be such as to help it rather than to hinder it. It is from this last point of view that the economists have been busy discussing problems and prospects. But the difficulty is that they would not look beyond the theoretic frames or models they choose or construct. As Chenery remarks, the contradiction arises from the assumptions made, or should one say, from the various interpretations of the same! But then whatever theory or model may suggest, it is necessary to see if foreign trade in practice is better than and different from what Keynes described as "beggaring thy neighbour". The reconciliation sought must be first found in practice and, as Jan Tinbergen is quoted by H. Kitamura, ('Capital Accumulation and the Theory of International Trade'), the growth of the economy of a country should not be considered as a problem concerning that country only, but as a part of the world problem of equilibriated growth. Only this approach will help to find the reconciliation sought by the economists in this volume.

WINDOW ON THE WORLD

Soviet Economic Reformers Await Breakthrough

KONSTANTIN A KRYLOV

IN SEPTEMBER 1965 a plenary session of the central committee of the Communist Party of the Soviet Union decided on economic reforms "including a series of interdependent measures for perfecting management and planning, the economic stimulation of production and economic incentives for the workers." According to Soviet sources the reforms were necessary because previous practice had clearly shown that earlier methods of management and planning had proved unable to cope effectively with present-day economic demands and had led to extremely wasteful use of manpower.

In any economic system the main guide to its efficiency is the ratio of the physical volume of national revenue to the total fixed and productive capital of the whole economy. Corresponding members of the USSR Academy of Sciences Mr Khachaturov, notes that during the 1959-65 seven-year Plan this key index fell steadily, from 59.6 kopecks of national revenue for every rouble of capital in 1959 to 50.3 kopecks in 1965 ('Voprosy ekonomiki', No. 7, 1967, p. 46). For purposes of comparison it may be noted that in 1963 in the Soviet Union each rouble invested yielded 52.4 kopecks of national revenue, whereas the corresponding figure for the USA was 64 cents for every dollar. This poor showing is even more apparent in Soviet agriculture where, despite significant increase in fixed capital, the "volume of production has even slightly decreased" (ibid., No. 2, 1966, p. 128).

The complete failure of the old methods of management and planning to meet the new demands for immense industrial growth and diversification ushered in by the new technological revolution, the growing risk of a disproportionate absorption of manpower into management, planning and accounting (or the sharp deterioration in its quality if the old methods are preserved), and the low efficiency of the national economy as a whole are important, though by no means the chief factors prompting the introduction of the economic reforms. To these must be added the aging and deteriorating condition of existing industrial plant, slow technological modernization, problems of supply and capital investment (including purpose, distribution, planning, and assimilation). Furthermore, the need to improve the quality of many Soviet products has important political significance for the maintenance of Comecon, the east bloc equivalent of the west European Common Market, and affects Soviet competitiveness in world markets and its prestige as the world's second industrial power.

Change in Basic Structure

The 1965 Party Central Committee plenary session devoted most of its attention to changing the basic structure of management, planning and techniques within enterprises; the bureaucratic superstructure was not pruned at all: indeed, the number of union and union-republic ministries rose from 22 and 25 respectively in 1965 to 24 and 28 in March 1968, and their structure had more or less reverted to that existing before the Khrushchev ministerial shake-up in 1957. To judge from the wording of the decree published after the 1965 plenum, it is this top-heavy bureaucracy which is to blame for the lack of adaptability in so much Soviet planning. After referring to the urgent need for an "increase of production efficiency, growth in labour productivity, an increased return on capital investment and basic production capital," the decree said that all this depended on "improvement in the scientific level of state planning" which must be based on "realistic and objective calculations" and observe "the economic laws of socialism, guarantee balance in the economy, and achieve maximum industrial production with the minimum of expenditure." It also insisted on better planning and a reduction in the number of planning indices, removal of unnecessary, bureaucratic regulations governing the activities of enterprises and "improved use of such important economic levers as profit, price, bonuses and credit" ('Pravda', September 28, 1965). This was followed the next month by Party Central Committee and the USSR Council of Ministers decrees defining the mechanism through which the new economic reforms were to be put into practice; also approved was the "Statue on Socialist State Production Enterprises," which was intended to "significantly increase the rights, economic initiative and independence of enterprises" (ibid, October 21, 1965). This statute named as the chief obstacle to the efficient operation of enterprises frequent official tampering with production plans and stated that henceforth changes would take place "only in exceptional cases and after preliminary discussions with the administration of the enterprise." This was a direct criticism of ministerial interference. During this period an inter-departmental commission of USSR Gosplan was formed to supervise the progress of the reforms, which came into effect in January 1966, when 43 factories and plants switched to the new system, many of them on a full profit-and-loss basis. Tass reported on July 20, 1968, that more than 13,000 enterprises, representing 50 per cent of all industrial production and about 60 per cent of all profits, are now working under the new system.

Stress on Quality

To assist industry to adapt itself to the new conditions and to simplify planning and to give a greater degree of independence to factory managers, the number of planned indices was sharply reduced from 30 to 8; the hitherto most important index, that of gross production, which had previously encouraged enterprises to produce goods merely for the sake of fulfilling their norms was replaced by some degree of market analysis, taking into account only the volume of production actually sold, forcing industry to produce only readly marketable goods and thus leading to an improvement in the quality of production. With the object of rationalizing the utilization of fixed basic capital and averting the accumulation of unnecessary reserves of machinery, equipment and materials, a levy of six per cent of the value of production assets was imposed. Enterprises were also given the right to liquidate their surplus fixed assets by selling their superfluous machinery, equipment and materials to other organizations. To speed up scientific and technical progress, which is considered to be the central problem in the competition between the two world systems, a general demand was made for a significant improvement and more economically realistic basis in the planning of new techniques, above all in the field of capital investment. Increased wholesale prices should be introduced in order to give the enterprises a material interest in their output. In each undertaking a production development fund was formed, made up of "profits tax, depreciation allowance, and the proceeds from the sale of surplus equipment" ('Voprosy ekonomiki', No. 2, 1966, p. 105). These funds could be spent on financing capital investment for the introduction of new techniques and on other measures for improving production. To boost the workers' interest in the performance of their enterprise, a material incentive fund and funds for social and cultural activities and housing were created. These were mainly financed by deductions from profits.

All these measures were taken to render money-exchange relationships more flexible and to make profitability the guid-

ing principle both within the enterprises themselves and in their dealings with other sectors of the economy such as transport, suppliers and financial organs. Price reform was also to play an important part.

The first three years have shown, however, that so far the reforms have had little positive influence on the principles of planning. The breakthrough has not been achieved. As before, "the choice of a more efficient variant of planning is largely empirical" ('Voprosy ekonomiki', No. 3, 1968, p. 36), because the application of mathematical techniques and computers in national economic planning is still inadequate The old index of gross output, the chief cause of imbalances in production in the past, has been abolished on paper but continues in effect, because its successor, the wage fund, was set up on the basis of data from the index of gross output ('Pravda', June 28, 1967). The new yardstick of "goods sold" achieved positive results in the case of commodities disposable through trade, but in the production of goods for disposal through the material and technical supply system there has been no improvement, because the market for these goods is automatically assured by the distribution system itself. No significant improvement in the quality of goods has yet been registered either.

The establishment of a six per cent levy on production assets and permission to liquidate surpluses, in principle a perfectly reasonable measure, has worked badly in practice, because this six per cent levy is simply paid out of the enterprises' profits, which can be as high as 30 per cent or more, any improvement or deterioration in production leaves the workers and management more or less unaffected from the material interest point of view. The liquidation of surplus fixed capital is restricted "by the complete absence or inadequate utilization of existing reserve equipment" ('Voprosy ekonomiki', No. 11, 1966, p. 4), with the result that capital investment is invariably directed towards the accumulation of superfluous assets.

Progress Not Materialised

The anticipated acceleration of technical progress through improved planning has evidently not materialized and at the national level planned targets are only being 80-90 per cent fulfilled ('Ekonomicheskaya gazeta', No. 21, 1968, p. 4). The arrangement by which loans from the State Bank for the introduction of new techniques may be repaid only from the production development fund "in certain cases puts a brake on technical progress" ('Pravda', May 21, 1968), because the size of the loan depends on the size of the fund, and "here arises the paradox: undertakings switch to a new system, but are placed in a worse position." The Voronezh agricultural machinery factory, for example, where reconstruction would cost two million roubles "can receive in the next six years a loan of only 755,000 rubles" (ibid., February 14, 1968). Apart from this, the central plans do not provide sufficient supplies of materials to enable these funds to be properly exploited and an enterprise, even if it has the money, cannot acquire the necessary equipment and materials. Nor have the reforms been able to reduce the time needed for the planning and construction of new enterprises, which can be anything from seven to fourteen years, a factor which obviously retards the rate of technical progress.

The chief beneficiaries of the new incentive funds are industrial management staff and engineering and technical personnel. "At present the proportion of bonus in a worker's wage remains very low. Even in undertakings working under the new system it is only six to eight per cent" ('Voprosy ekonomiki', No. 4, 1968, p. 135). Moreover, the greater part of a worker's bonus comes from the wage fund, which does not depend on the level of profitability. A leading factory manager, Mr V. Ivanov, points out that practice has shown that the mechanism of the reforms still does not sufficiently encourage enterprises to step up production plans ('Pravda' February 14, 1968). In fact, as Professor Liberman explains "the existing system for the formation, and especially for the use of (incentive) funds compels enterprises to adopt lower targets" ('Planovoye khozyaystvo', No. 1, 1968, p. 25).

The conclusion seems to be that although the economic reforms have had positive results, they have not so far justified the hopes placed in them. They have skimmed the surface of Soviet economic life but have not decisively changed its principles. The director of the Rostsel' mash factory, Mr A. M. Merkulov, writes:

> In the first couple of years under the new conditions enterprises usually achieved high results, mainly at the cost of unused reserves which, if one may use the phrase, are lying on the surface. This is the conversion of above-norms surpluses of finished products, a reduction in the reserves of material assets, the sale of surplus and unnecessary equipment, a curtailment of uncompleted production, etc. Deep reserves, however, melt away in the process of improvement of technology and in the mechanization and automation of production processes. ('Ekonomicheskaya gazeta', No. 21, May 1968, p. 14).

Inordinate Time Lag

Merkulov is not alone in his opinion, and his statement is representative for many others. Yet, it is these same "deep reserves" that the reforms aim to set in motion. However, the 'Pravda' leader of April 19, 1968, insisted that deep reserves must not be seized upon with a loud "hurrah," and squandered. "What is needed is hard, continuous work and a single plan which has been thought out in detail and which will improve production technology, its organization and management. Only authentic scientific planning will produce the required results." Here, however, 'Pravda' misses the point. Up to July 1968, about 18 per cent of the country's enterprises, the largest and most suitable for adaptation, were working under the new system. How long will it be before the other, economically weak concerns are brought into the new scheme, and how many new problems will this pose?

Marx's law of labour value was for a long time the focal point of Soviet economic discussions. It was asserted that in so far as the Soviet economy has commodity production, Marx's law of value applies to it also. An analysis of Soviet economic practice soon revealed, however, that in order to take optimal economic decisions the value of such items as unexploited raw material reserves, land and water should be taken into account as well as that of labour. Value and price are the instruments of this law of value, which states that price is fixed by market forces, and only in this case does pricing perform its basic function as an incentive and an aid to distribution. Soviet economists seem to have finally grasped the point that planned prices are not an adequate substitute for market forces as a guide to the orientation of the economy.

In 1967 the Soviet government instituted a reform of the wholesale price system in industry, in an attempt to bring prices into line with their actual value and to make most sections of industry profitable. But because there was no fundamental change in the principles of price-fixing, however, "the revision of wholesale prices in 1967 only resolved part of the task in this sphere" ('Voprosy ekonimiki', No. 2, 1968, p. 156).

In the Soviet Union today nobody denies that a market economy is necessary under socialism, and the only disputes are over the extent to which it should be introduced.

It is most likely that in the foreseeable future market relationships will come to play an increasingly important role in the Soviet economy. Overcoming resistance. step by step, market forces will pave the way for new economic relationships. The resistance to this process is largely of a political nature, arising from apprehension and lack of understanding on the part of some communist leaders and ingrained habits of administrative control.

Business and Government in USA

GERARD A. DONOHUE

WASHINGTON:

ANYONE OLD enough to remember the bitterness between business and government, and business and labour in the 1930s must find the attitude of business leaders towards government and social problems today almost unbelievable.

A famed cartoon of the 'thirties showed a group of top-hatted "capitalists" and expensively dressed women; the caption read, "Let's go to the Newsreel theatre and hiss Roosevelt." Government was regarded as some sort of necessary evil; and the less said about organized labour, the better.

Today, there is little difference between the goals of the United States, and the means of achieving them, between the leaders of the largest corporations and the President, whether he be Democratic or Republican. The Committee for Economic Development (CED), a non-governmental organization composed of some 200 businessmen and educators, has just issued a recommendation for fiscal and monetary policies of the government that duplicates many of the ideas of President Johnson and undoubtedly will be studied closely by President Nixon, for some of his advisers helped prepare it.

If such a committee had existed 35 years ago, it is safe to say it would have been full of such recommendations as "balance the budget"; "cut taxes;" "reduce government regulation of business" and "crack down on labour". It is quite revealing and significant that not one of the above demands is mentioned in the present report. There is no less belief in a free and competitive economy; there is rather a deeper understanding of the role that government does, and should play, in achieving economic growth with stability and in solving social problems.

The CED, lists the objectives of the nation's economy this way and in this order: "A high level of employment; general price stability; economic growth and equilibrium in our international payments." Few government or labour leaders would disagree with these objectives. The committee holds that these goals can best be attained in an environment of political, social and economic freedom. But the CED also realizes that because of the vast size of the government, with its power to tax and spend, to lend and borrow, the way in which it uses that power through its fiscal and monetary policies, will have much to do with whether those goals are realized.

The business leaders believe that the government should manage its financial affairs to ensure that the resources of the nation are used in the most efficient manner. This means that the government must weigh carefully the effects of government expenditures against the effects of private expenditures on the overall economy, and attempt to maintain tax levels at such a rate as not to discourage private investment. They believe, too, that government must stimulate the economy if performance falls short of potential, or restrain it, if inflation threatens. But perhaps even deeper than the changed attitude towards government is the growing sense of responsibility of business leaders towards the overall problems of society as a whole. Now that they feel that the economy can be managed to prevent depressions or inflations, they are turning their talents and resources towards the social problems of the cities: air and water pollution, housing and the discontent of many of the young and the Negroes.

This may sound surprising to many—and will be greeted with laughter or derision by some, both in the United States and other countries, but 'Fortune' magazine, published by the same management as 'Time' and 'Life', said in an editorial calling for increased co-operation among all Americans to achieve national goals, that "business is, in fact, rapidly becoming the most important activist liberal force in the country."

Confidence May Follow Convalescence

E. B. BROOK

VIENNA:

WITH THE first month of the year gone the usual flutter of estimates and forecasts that come with the sense of new beginning around January 1 have disappeared and been forgotten. In their place, more helpfully, is some indication of how the year is actually shaping. Fortunately, so far, the shape is calm and cautious with conditions less panicky and with sensible voices speaking of a need for calm and convalescence.

There are a number of patients, as it were, in the monetary world, foremost among them the international monetary system itself. One of Europe's most level-headed bankers, Dr Otmar Emminger, a member of the directorate of the German Bundesbank, has advised a fairly long convalescence for the monetary system, with no more experimentation, crisis meetings or economists' bright ideas. What money needs is a fairly long, perhaps uninteresting, period of calm so that confidence may grow again.

Dr Emminger is not alone in advocating a period of rest. The Common Market's finance ministers and the central bankers have showed themselves to be in no hurry, nothing outstanding is expected of the Common Market Commission in its proposals due in mid-February, for meeting currency crises. President de Gaulle, who has made it clear he is in office till 1972, will not let Britain into the Market in the meantime and the West Germans will do nothing experimental at least until they have their September general election well out of the way.

At the moment, with the new US administration getting under way and the sterling making a slight recovery, Europe is experiencing an uncommon period of quiet which is almost precisely what the banking doctors have ordered.

There is beginning, as a result, to be a little more confidence. Not too much should be made of this, for money markets appear to be among the world's most sensitive institutions. Even if there is a little more confidence, so much of it has been shaken or lost that restoration will take a long time. International monetary conferences or experts' enquiries and recommendations would only throw international trade and foreign exchange markets into new uncertainties without much prospect of practical achievement.

The Patronat, the French employers' association, is in no doubt of the need not only for quiet convalescence but for more vigorous recovery. It has stated that, to avoid a devaluation of the franc—in spite of superior reassurances from the Elysee—there must be no increase in French workers' wages this year, the French government must make further drastic cuts in expenditure and productivity and sales must be stepped up sufficiently to absorb the cost of wage increases made since the beginning of 1968.

These minatory remarks may be a tactical first step towards the tripartite talks coming in March between French employers, workers and the government. But France and Britain remain economically the sick men of Europe and of the two, France is probably more sick than Britain since it appears to be the more internally divided in purpose. Britain knows it has an economic sickness and acts accordingly.

It is to West Germany that one must turn in Europe to find anything approaching the thrustful American spirit in

finance and commerce. In Herr Franz-Josef Strauss the West Germans appear to have the man for this job. Ambitious, vigorous and unabashed by opposition or criticism and combining a degree of ruthlessness with much bonhomie he is, with his virtues and faults, what west Europe, with its present disappointments and hesitations, needs.

Herr Strauss has just launched West Germany on its first small steps to increasing its direct investment abroad by introducing a bill to allow West German concerns to offset losses incurred on foreign operations against income liable to West German corporation tax. His Finance Ministry is working on ideas for a much further reaching system of incentives for direct foreign investment, though legislation is unlikely to come forward before the September elections.

The West Germans have been encouraged by President Nixon's more welcoming attitude to foreign investment in the United States. Increased European participation in American industry will be a welcome offset to US buying of European companies, particularly if European subsidiaries can be set up in the USA.

The popularity of Eurobonds with American groups shows not only their aggressive investment policies but that their confidence in Europe is greater than that of the Europeans at the moment. During 1968 the overall growth in American investment in Eurobonds was 63 per cent, involving $3,130 million. Convertible issues grew in value over seven times during the year. The latest investor of size is the Murphy Oil Co. of the USA which is raising $25 million in Europe to finance the building of a refinery in Britain.

Something of the same enterprise may be seen also from Britain. British Leyland has embarked on a massive expansion of its major Common Market assembly plant at Seneffe in Belgium to increase its capacity by fourfold to 100,000 cars a year. Western Europe is regarded as providing the company with its greatest growth potential. Similarly, ICI is moving further into Europe with an investment of nearly £2 million in pharmaceutical factories in France and Italy. The marketing of British pharmaceutical products is growing apace in west Europe, especially west of the Alps and the Rhine—beyond that is mainly a German and Swiss market—with a 50 per cent improvement in sales performance last year.

This growth in British and German enterprise with a thrustful sales and investment policy, ignoring doubts about exchanges and currency, promises to do more towards restoring economic health than the theorizing about basic values by economists. Europe needs a period of quiet from the experts but is wide open to healing by manufacturers and sales teams in thrusting Europe's enterprise more vigorously into the tougher markets on the other side of the Atlantic.

IFC's Role in New Development Investments

THE INTERNATIONAL Finance Corporation* made 17 development investments in 10 countries during the 12 months ended December 31, 1968. The IFC's new commitments in 1968, totalling $47.9 million, helped mobilize $260 million in new business investments in the developing countries during the year. The IFC's commitments in 1968 were in Brazil, Colombia, Jamaica, Kenya, Korea, Mauritania, Mexico, Nicaragua, Pakistan and Venezuela. Other domestic and foreign financial institutions and private industrial firms made separate investments of approximately $212 million in the projects.

The IFC's 1968 investments in its member countries raised its total over the past 12 years to $289 million. Private financial institutions continued to give IFC investments in less developed countries a strong vote of confidence, buying for their own portfolios about $17 million—or more than a third—of IFC's investments in 1968. Participations in IFC investments came from 38 institutions in 13 countries, and they freed for reinvestment in new projects in the developing countries over a third of the investment funds committed by IFC during the year

First commitments were made by the IFC during the year in three countries—Korea, Mauritania and Nicaragua—spreading the Corporation's investments to 39 countries. By the end of 1968, IFC commitments in Africa, over its 12-year history, totalled $59.2 million, or 21 per cent, and commitments in Asia and the Middle East totalled $69.4 million, or 24 per cent of total investment. Commitments in Latin America came to $142.6 million, or 49 per cent. The remaining six per cent represented investments in Europe and Australia.

The IFC entered into eight major new ventures in 1968—five in Latin America, two in Asia and one in Africa. These investments involved copper mining, fertilizer production, chemical products, textiles, steel making, animal feed production, tourism and an investment in an industrial financing institution. The IFC's interest in tourism as a development industry was reflected in two new commitments, in 1968: An investment in an $8.6 million, 703 bed hotel in Jamaica, the Jamaica Pegasus, to provide the Caribbean island nation with convention facilities now lacking, and a commitment, together with convention facilities now lacking, and a commitment, together with a broad group of Colombian public and private organizations, to sponsor Compania de Desarrollo de Hoteles y Turismo Limitada (Hoturismo), a new company formed to develop Colombia's tourism potential.

The commitment to Hoturismo was one of IFC's first moves under a new policy adopted in July, under which the Corporation is taking on a more active role in the promotion of prospective investments where good projects suitable for IFC financing in accordance with its regular criteria could be developed, but where they are not moving forward because of the absence of an industrial sponsor committed to the project. In some cases, the IFC is acting, under the new policy, as a banque d'affaires, giving both financial and technical support to feasibility studies and, in general, helping to pay the costs of putting together all the elements—industrial, technical and financial—of a promising project. The IFC is now engaged in the banque d'affaires promotional role in Indonesia.

In other cases, the IFC will join other investors in putting equity funds into pilot companies intended to carry out detailed negotiations and studies needed to permit expansion of the pilot organization into the full scale project. The IFC has agreed to join a pilot company of this type in Honduras as well as in Colombia.

Also during 1968: The IFC made its single biggest investment to date, a $20 million commitment to a $60 million Mauritanian copper mining project, Societe Miniere de Mauritanie (Somima). In Korea, the IFC participated, together with the World Bank, in financing the Korea Development Corporation (KDFC), the country's first private institution for long-term industrial investment. The IFC made its largest underwriting

* IFC is the World Bank affiliate that invests in private enterprises in developing member countries.

commitment to date, guaranteeing the sale, in March 1968, of half of a $14 million issue of new shares by Compania Fundidora de Fierro y Acero de Monterrey, S.A., in Mexico.

In Nicaragua, the IFC made loan and equity commitments to a new textile project, Textiles Fabricato de Nicaragua, S.A., at Managua, in which, for the first time, a Latin American firm —Fabricato of Colombia—was the industrial sponsor in an IFC supported project in Central America. In this investment also, for the first time, the IFC joined hands with the Central American Bank for Economic Integration, to promote a new industry that will benefit all five countries of the Central American Common Market.

In July the IFC made its first investment in a fertilizer project in Pakistan, in Dawood Hercules Chemicals Limited, a $78 million urea fertilizer plant in West Pakistan. In December 1968 the IFC joined Brazilian investors in establishing a $61.5 million facility called Petroquimica Uniao Ltd., near Sao Paulo, for refining naphtha. The project, in itself one of the largest Brazilian private businesses, will also permit the establishment or expansion of a number of other companies utilizing Petroquimica products in the manufacture of a wide variety of plastics, synthetic textiles, solvents, pesticides and detergents for the Brazilian market. These companies will require further new investments in Brazil totalling some $300 million over the next decade. The Petroquimica project brought the IFC's investments in Brazil to $40 million, in 10 Brazilian companies.

During 1968 the IFC made eight commitments of less than $500,000 each, six of them in four private firms in Colombia, one in Kenya, and one in Pakistan. These smaller commitments totalled approximately $533,000.

Five countries joined the IFC in 1968, raising the total membership in the Corporation at the end of the year to 90 countries. Paid-in share capital rose to $102.4 million. Indonesia rejoined the Corporation in April, Yugoslavia became a member in July, Uruguay in August, and Singapore and Mauritius joined in September.

Breaking the Barriers

E. F. K. HAUBOLD

This article was read by the author at a recent seminar held in New Delhi on Indo-German relations.

WEST GERMANY's leading weekly newspaper 'Die Zeit' recently gave a breakdown of German government credits to developing countries since 1960. It showed that between 1961 and 1967 Asian nations were the main beneficiaries of Bonn's development aid. India in every year received the largest single share. The average annual figures in million D-mark were: India 187, Pakistan 128, Iran 99, Indonesia 60, Korea 60.

If one accepts the relations between total West German exports and development aid to one particular country as an indicator of the efficiency of development credits given, India in comparison to the other nations fares extremely well. In her case, the average yearly German credit amounted to 22.5 per cent of German exports to India, whereas in the case of Pakistan this figure was 34.4 per cent and in the case of Korea it was 64.9 per cent. Other "efficient" recipients are the Latin American nations: Brazil (15.2 per cent), Mexico (21.8 per cent) and Chile (23.5 per cent).

One remark in the article mentioned above deserves special mention: While West German government credits to Asian countries developed rather satisfactorily, West German industries clearly preferred the Latin American nations for their investment. Indeed, an analysis of present Indo-German economic relations brings two major problems into focus: (i) West German private investment in India; and (ii) the trade balance between the two nations.

German Ventures

There are more than 300 Indo-German joint ventures or collaborations. And the fact that the leading German firms together with their Indian partners at an early stage have established their own manufacturing units in India clearly indicates the interest these companies take in the country's economic development and the faith they have in the political stability of India. To mention just a few, Siemens India produce motors, transformers and switchgear in Bombay; Telefunken manufacture transistor radios near Delhi; AEG has a financial and technical collaboration with NGEF, Bangalore, to produce electrical equipment; BASF India has just started manufacture of polystyrene products and tanning agents on a large scale; GHH-Gutehoffnungshuette, a major supplier to Rourkela steelworks in the late 'fifties has started a joint venture in Kansbahal, Orissa to supply heavy machinery, equipment and spare parts to the steel plant; Fried Krupp has set up an enterprise, Widia India, in Bangalore, which has begun production of tungsten carbide tool bits.

Apart from these, however, and although the number of ventures undertaken so far, is quite impressive, the total German private investment in India amounts to barely 200 million D-marks (about Rs 400 million). The reasons for this are manifold:

(1) German economy had to be rebuilt from scratch after World War II. Since credits were scarce, German industries turned to self-financing, ploughing back all profits into new investments within Germany, and later on, in the neighbouring countries.

(2) German capital investments abroad were expropriated twice. The companies concerned lost investment worth 20 billion D-marks (about Rs 4,000 crores) each time. This led to considerable shyness on the part of German investors well until the middle 'fifties.

(3) While political stability in India was always rated high, the attitude of the Government of India was not thought to be suitable for attracting foreign investment. Thus, India compared unfavourably with other developing countries particularly those in Latin America. Furthermore, West German investors were afraid of the "bureaucracy" and the "red tape" involved in getting a licence to start a joint venture. The reluctance of the Government of India to sanction employment of foreign experts, and the restriction on the import of essential raw materials served as an additional hindrance.

(4) Last but not least the recent recession in the Indian economy had led many prospective investors to adopt the "wait and see" attitude.

Fortunately, however, the situation in both countries has changed in the meantime. As regards West Germany, two recent developments are of great significance to all developing nations:

(a) The Free Democrats, forming the opposition in Bonn's lower house of Parliament have recently introduced a bill urging the government to provide special incentives and income-tax reductions to German firms who wish to invest abroad, particularly in developing countries.

(b) Dr H. J. Abs, West Germany's leading banker recently granted an interview to 'Spiegel' a news magazine,

which carried great weight because Mr Abs is not only the chairman of West Germany's largest private bank (Deutsche Bank) but also member of the boards of directors of such export-orientated German firms as Daimler-Benz, Krupp and Siemens. Dr Abs said that while West Germany had become the second largest trading nation in the world and the third largest industrial nation, its economic structure had at the same time become extremely vulnerable because of the very high share of its industrial production that went into exports. Because of the rather small domestic market, German firms constantly tried to increase their exports in order to keep the cost of production low. There were many leading enterprises that exported more than 50 per cent of their turnover, and in the case of Volkswagen the share of exports had gone up to over 70 per cent at certain times.

Dr Abs therefore advocated that German industries should invest increasingly abroad, erect their own manufacturing units in third countries, particularly in the third world. This would ultimately put the relationship between exports and production on a sounder footing and make German economy less vulnerable to changes in trade policies, trade barriers etc. Dr Abs also said that while American firms in third countries produced goods worth 400 billion D-marks annually, the production of West German firms reached only 12 billion D-marks per year. In other words, production of American firms abroad was four times as high as total US exports, whereas German firms' production in third countries amounted to only one-eighth of total German exports. It must be emphasized that India is only one among many developing countries trying to attract capital from German firms. Serious efforts on India's part to improve the investment climate will therefore pay high dividends. The following steps might be considered worthwhile:

(1) Economic conditions in India have improved recently. Recession in a number of industries has been overcome. There has been remarkable progress on the agricultural front. Exports have increased sizably. Imports have declined leading to a more favourable balance of payments. Furthermore, the Government of India has begun to liberalize economic policies in regard to licensing, expansion of capacities, new capital issues and import licences. The new Foreign Investment Board is expected to expedite decisions on new collaboration proposals.

Communication Gap

All these recent developments are, however, not widely known in West Germany's economic circles. The picture the average industrialist has of India is a mixed one. It is extremely difficult for observers abroad to interpret for the benefit of the German firms developments in a democracy of India's size and with problems of such magnitude. Considerable effort should therefore be made to bridge this gap in communication between the two countries.

(2) An opinion research study regarding India's ranking in the competition of several developing countries for more private investment from West Germany should be undertaken. It will reveal a long list of queries from German enterprises and will also indicate what kind of information was needed and which barriers India should remove to make investment more attractive.

(3) An early decision with regard to the pending patent law as well as clear indications as to the duration and ceiling of royalties would be welcomed by foreign investors.

(4) A study of the already existing Indo-German joint ventures with a view to finding out why they had come to India would be quite revealing and help in framing promotional policies. It would, for instance, show that the widely advertised advantage India offers in terms of labour cost for the majority of German firms was not at all important for their decision to invest in India. The reasons: Firstly, the more modern an industry, the more automated it normally is, and the less manual labour it needs. Second, labour productivity in India is much lower than in industrialised countries. A German firm in Bombay has recently found out that a skilled worker hired there reaches only 30 per cent of the productivity of his German colleague, and even after comprehensive training comes up to only 65 or 70 per cent. Interviews with leading firms therefore reveal that their reason for coming to India was to have a foothold in a market which would ultimately develop into one of the largest mass markets in the world, with constantly increasing buying power. This is the point which should be emphasized when trying to attract foreign capital. Furthermore, promotional efforts should be concentrated on large foreign enterprises as they only have the means to wait for a number of years until returns on investment start flowing back.

It needs however to be added that both West German government and industries are keen to encourage private investment in India. Another indication, apart from the ones mentioned above, is the plan under discussion to combine long-term West German government credits with capital from German firms for investment in India's priority industries.

Machinery Imports

Over the last few years, India has had an unfavourable trade balance with West Germany owing mainly to the fact that it required for industrialisation increased imports of machinery and equipment from West Germany but was not able to find a foothold in the German market for its non-traditional goods.

Fortunately, last year the gap in the trade balance was reduced by 33 per cent mainly because of increased German imports from India. This is however no reason to be complacent in this regard. India must reduce the gap in the trade balance further because of its growing needs of foreign exchange to satisfy the requirements of its new industries for sophisticated machinery and industrial raw materials from West Germany.

Both the government and the industry in West Germany are keen to encourage imports of non-traditional goods from India. While Bonn has sanctioned five million D-marks for export promotion of Indian goods (Vollrath-scheme), private companies are co-operating with their affiliates in India for the same purpose.

As in the case of investment, the main obstacle to export promotion of Indian goods is insufficient communication. Of all the western countries, West Germany has the most liberalized import policy and Indian goods therefore are not being threatened by quotas and other trade restrictions. They must, however, compete in an open market. And here the main problem comes in: the German buyer might be aware of India being a leading producer of tea and jute goods but he has little experience or trust in semi-finished and finished industrial goods from India. The most urgent task to be undertaken by India is therefore, to create a "Made-in-India image" through a widespread advertising and promotional campaign in West Germany. It should convince the German buyer and the consumer that goods from India are reliable, of high quality and competitive in price. And most important, that Indian manufacturers do look after their customers and after-sales-service is not an unknown word to them. It is imperative that each and every manufacturer who wants to sell in Germany should appoint at least one sales representative or establish an office there, preferably staffed with German nationals to overcome the language barrier. Apart from considerations of price, the German buyer wants quality goods delivered in time. Creation of warehouses in West Germany where Indian goods would be stored on a consignment basis, would be a successful way to woo the German buyer. The warehouses would have to be financed and maintained by the Government of India. Then only the German importer would have a clear idea about the quality of Indian industrial goods and would be assured of continuous supply even if a ship does not arrive in time or, as it happened some years ago, the Suez Canal is suddenly closed.

The moving finger writes

IN AN attempt to anticipate the shape of things to come in the DMK, I pictured Mr Karunanidhi as impatiently waiting in the wings while Mr Nedunchezhian succeeded the late Annadurai as Chief Minister. Here I had underestimated Mr Karunanidhi's assertiveness. His trump card, of course, was that Annadurai had gone without expressing any preference regarding a successor. Had the late leader favoured Mr Nedunchezhian and expressed his support for him, the latter would have been able, at least temporarily, to maintain his position against the rank-and-file support for Mr Karunanidhi.

The fact that Mr Nedunchezhian has chosen to stay out of the new ministry clearly detracts from the formal unanimity of the party's acceptance of Mr Karunanidhi as its new leader. It is good that there is a group of persons in the DMK which has apparently decided to stand apart and closely watch Mr Karunanidhi in his new position of power and responsibility. The feeling and the fear that there is a section in the party which may not be averse to exploiting his errors of judgment could be a salutary discipline on the adventurous urges, if any, of the new Chief Minister of Tamil Nadu to play up to the DMK gallery.

* *

A guilt-ridden people fondly hoped to expiate its sins by taking the ashes of Mahatma Gandhi to the rivers and the seas. This should have made Gandhiji weep; only, by then, he was beyond tears—his or anybody else's.

Jawaharlal Nehru was a different kind of person. Exercising his authority from beyond the grave, he decreed that his ashes should be strewn from the air over this land. His personal and political heirs were only too ready to oblige. It did not occur to anybody to ask whether this gesture of gross extravagance was just to the man who had gone or fair to the men who remained.

Now comes the decision of the DMK administration burying Annadurai on the Madras beach and announcing a plan to build a mausoleum on the site. Some people have been wondering why the dead Chief Minister was not cremated. This point does not interest be. Every man to his taste, although I personally believe that the funeral pyre—and, where available, the electric crematorium—is the most sensible means of disposal of human remains. What concerns me here are the disturbing implications of the DMK government's act in misappropriating space on the Madras beach for a grave for the departed leader.

I use the word "misappropriating" deliberately because the area in question is the property of the community and is clearly to be used by the public for its own enjoyment. I do not believe that the construction of a mausoleum for an individual, however eminent, on this particular stretch of land is consistent with the character of this communal property. I doubt that it is even a legal act. Unfortunately, the circumstances are such that it is just not possible for aggrieved citizens to seek a legal remedy or for the courts to decree redress.

It may be argued that there are precedents for the action of the Tamil Nadu government in the earlier decisions of the central government setting up on public land the Rajghat, the Shanti Vana and the Vijay Ghat in memory of Mahatma Gandhi, Jawaharlal Nehru and Lal Bahadur Shastri, respectively. The example of the "mazar" of Maulana Abul Kalam Azad on the ground before Jama Masjid may also be cited.

I submit that there is no analogy to be found here. The first three memorials, whatever else may be said against them, do not constitute a direct and substantial encroachment on land which was previously in use for normal communal recreation. On the other hand, it could be argued at least on behalf of the Rajghat complex that it has added, although incidentally, to the recreational facilities available to the public in the capital.

The Maulana memorial is perhaps more to the point, but a proper comparison to the DMK government's action would have been a decision—if the central government had been foolish enough to take one—to place an urn containing the ashes of Lal Bahadur Shastri at the centre of Vijay Chowk and build a memorial structure over it.

Even then, the comparison would not have been complete for the Marina in Madras is unique as a communal property. Celebrated as one of the finest stretches of beach-sand in the world, it certainly deserved to remain above the vandalism of passing politicians. If Annadurai, why not other leaders of Tamil Nadu, illustrious in their contexts? I shudder at the prospect of the Marina gradually being eaten into by the inroads of a lengthening graveyard of legendary public men.

It has not been very pleasant for me to write this. But, then, I find it difficult to tolerate a state of affairs in which even the most outrageous acts of politically powerful men are passed over in silence by other public men and the press mainly and simply because silence so conveniently serves.

* *

I suppose that Congress morals are no worse now than they were 10 or 15 years ago, but then there is certainly much more cynicism among Congress leaders these days about the ethical obligations of their party. Recently, for instance, the Congress President seemed to think nothing of it when he chose to tell local journalists that the Prime Minister had undertaken to provide for the party's election fund a fairly large sum of money received by her as donations towards her party's expenses on the mid-term polls. Are we to believe that the considerable amount which Mrs Gandhi has gathered for her party's election chest has been made up of 25-paise coins or even one-rupee notes gifted to her by a grateful common man in his millions? Are we to believe, again, that Mrs Gandhi's position as Prime Minister or the power and patronage implied in it had nothing to do with the calculations of the subscribers who may have been persuaded to loosen their purse strings. I am not suggesting that Mrs Gandhi is the first Prime Minister who has shown an interest in collecting funds for party purposes but this, perhaps, is the first time when the fact that a Prime Minister has been operating in a big way in this business has been publicly disclosed by the president of the ruling party. Perhaps I am wrong in thinking that this indicates another low point in Congress morals. The inference, quite possibly, could be different, for it may certainly be argued that there has, at least, been a decline in hypocrisy.

* *

Mr M. Chalapathi Rau, in his communication to the Secretary to the President, returning the Padma Bhushan award conferred on him last year, has referred to "a sphere of many dimensions". I am not particularly strong in geometry, but I doubt that Mr Rau is much better. How many dimensions does a sphere have beyond three?

V.B.

Trade Winds

ENGINEERING EXPORTS

EXPORTS OF engineering goods will touch an all-time high during the current financial year as they are expected to earn foreign exchange worth Rs 70 to Rs 80 crores (100 per cent increase over the exports totalling Rs 40 crores during 1967-68), stated Mr Prem Pandhi, Chairman, Indian Engineering Association (Northern Region), at a press conference recently. During the last 18 years, capital investment in the engineering industries had increased to Rs 1700 crores with an annual output in the neighbourhood of Rs 500 crores. Half of the capital invested, he said, was in the private sector. The engineering industries had not only come of age but were poised for a breakthrough on the export front, he added.

CREDIT FOR EXPORTS

Mr L. K. Jha, Governor of the Reserve Bank of India, told exporters recently that the Reserve Bank would consider a marginal liberalisation of the credit financing of exports in specific cases involving large export orders provided the credit terms sought to be offered were within the broad credit framework existing at present. Mr Jha who was inaugurating the half-yearly meeting of the All-India Exporters' Chamber, pointed out that this country could hardly compete with rich nations in the matter of export credit. But the Reserve Bank was anxious to see that exporters were not handicapped by the absence of credit facilities. It would, therefore, consider credit relaxation in deserving cases.

CABLE EXPORTS

The cable industry ranks second only to the pipes and tubes industry in the field of exports among the engineering industries. This is indeed an outstanding achievement for an industry in the grip of a severe recession. To achieve a high level of exports, the idea of a consortium was mooted by the Indian Cable Company. It provided the leadership but the ultimate success depended on the co-operation and support provided by the members of the consortium. Last year Indian Cable Company alone exported cables worth Rs 53.51 lakhs. The target for the present year (1968-69) is Rs 1 crore of which Rs 56 lakhs has been achieved in the first six months.

NAMRUP FERTILIZER PLANT

One of the two streams of the Namrup unit of the Fertilizer Corporation of India has gone into production using a range of indigenous catalysts produced by the P & D Division. These are made up of steam natural gas reformation and secondary gas reformation catalysts and primary and secondary HT CO conversion catalysts. Though a number of catalysts developed by P &D Division have been in commercial use for the last several years in FCI's Sindri unit, these catalysts have now been supplied to public and private sector fertilizer plants. The significance especially in this particular case of Namrup is that the entire stream up to the CO conversion is being operated using indigenous catalysts, along with the other stream which is running with imported catalyst.

LOAN TO BANK DIRECTORS

Loans or advances against government securities, life insurance policies or fixed deposits are exempted from the restrictions imposed on banking companies on granting loans to their directors or the firms, companies etc., in which they are interested. Loans or advances to the Agricultural Finance Corporation are also exempted from the same restrictions. The corporation had earlier approached the union government with a request that loans and advances granted to it should not be subjected to the restrictions imposed on banking companies on lending to bank directors.

MERCHANTS BANK

Mr James S. Raj, Vice-President of the International Finance Corporation, Washington, stated recently that he had come to this country on a fact-finding mission before setting up a Merchants Bank under the auspices of the IFC. At a luncheon meeting called by Mr B. K. Dutt, Chairman of the United Bank of India, Mr Raj stated that his discussions with industry, government and banks had so far been favourable. He mentioned, however, the doubts in banking circles that the Merchants Bank might intrude on the functions of banks. He assured them that the question of any overlapping of functions did not really arise since the proposed Merchants Bank under the auspices of the IFC would concentrate upon services in which banks at present did not largely participate. The basic idea of the Merchants Bank would be to offer a package of financial and legal services from one single institution. The void which would be created with the disappearance of the managing agency system could well be filled up by a merchants bank. It would help the reorganisation of companies with a view to merging weaker units with stronger companies for improving the viability of the corporate structure.

SEMINAR ON CONSULTANCY SERVICES

Mr Fakhruddin Ali Ahmed, union Minister for Industrial Development and Company Affairs, who was inaugurating the symposium on self-sufficiency in consultancy services in New Delhi recently underlined the need for the establishment of a forum in which Indian research institutions and engineering consultancy organisations could come together to consider their mutual needs. Explaining the reasons which prompted the government to decide that as far as possible turnkey jobs would not be given to foreign collaborators participating in any project in the country, Mr Fakhruddin Ali Ahmed pointed out that the party from this country in any collaboration arrangement would have to engage an Indian consultancy firm for rendering the engineering services for implementing the project. He also deprecated instances wherein entire equipment for a plant was sought to be imported in spite of the fact that a substantial portion of it could be fabricated with the manufacturing facilities available within the country.

INDUSTRIAL REORGANIZATION CORPORATION

Industrial Development Bank of India proposes to establish an industrial reorganisation division along the lines of the Industrial Reorganisation Corporation set up in the UK in 1966. It is understood that IDBI's board, identical in composition with the Reserve Bank of India's board, has approved in principle the proposal for an industrial reorganisation division, though a precise blue-print for the project has yet to be drawn up. The IRC of the UK was established, among other things, for seeking out structural changes involving mergers between companies, or the hiving off of subsidiaries.

ALTA ANNIVERSARY

Alta Laboratories Limited, established in 1954, celebrated recently its fifteenth anniversary. Alta is the producer of various fine chemicals such as salicylic acid, acetyl salicylic acid, sodium salicylate, methyl salicylate, salicylamide and

salicylic acid B.P. Alta is preparing to expand its activities to meet export requirements. The total value of Alta sales of these chemicals in 1968 was over Rs 1 crore.

EQUIPMENT FOR SINDRI

A contract for the supply of equipment for the phosphoric acid plant to be set up in Sindri was signed in New Delhi recently between Sepulchre Freres of Belgium and the Fertiliser Corporation of India. The cost of the equipment will be about Rs 1.51 crores. The plant, which is expected to be commissioned in 1971, will be designed and engineered by FACT's Engineering & Design Organisation, Cochin, and it will be based on the Central Prayan process. The Sindri unit will produce nearly 350,000 tonnes of triple superphosphate, in addition to sufficient gypsum of high quality to solve the current raw material difficulties.

EXCISE ON CIGARETTES

The country earns as much as Rs 120 crores by way of excise duty from the cigarette industry, according to the Chairman of the Cigarette Manufacturers' Association, Mr P. N. Thacker. Addressing a press conference after a meeting of the executive committee of the association, Mr Thacker stated that the excise duty on cigarettes varied between a minimum of 47 per cent for low-cost cigarettes and 134 per cent for top brands. The mid-brand attracted 80 per cent as excise duty. He said that the level of taxation in this country was higher than in other countries with a similar level of economic growth.

Cigarette production and consumption in the country has doubled in the last decade. As against 2,889 crores cigarettes in 1957, production in 1967 was over 6,000 crores. In recent years, the annual rate of increase in production and consumption is estimated at 15 per cent. There are 11 manufacturers in the country producing 83 different brands, 15 of them filter-tipped. Despite the sharp rise in consumption and production, the per capita consumption in India, however, continues to be low even when compared to some of the developing countries.

PETROLEUM CONFERENCE

The second Indian petroleum conference during its discussions in Baroda recently emphasised the need for searching new sources of oil. The conference discussed how best the cost of drilling could be reduced by applying sophisticated techniques. Several papers dealing with the surface and sub-surface geology, petroleum potentialities of Gujarat, Assam and the Andamans were presented and discussed. Some of the papers emphasised the need for expanding the frontiers of exploration to new vistas. This may lead to exploration in deeper sediments, older than 70 million years where no oil has so far been discovered in this country. The basic problems of techniques and interpretation were presented by the delegates of the Oil and Natural Gas Commission and Oil India Ltd. Moreover, methods of stimulations so as to increase production from every well and to augment the ultimate recovery of oil in fields already discovered were considered. These technical discussions exposed many of the operational difficulties currently experienced by the oil industry.

NEW A.I.D. CHIEF

President Nixon recently selected a university chairman and a Republican as new chief of the Agency for International Development. Mr John Hannah, who launched and directed Michigan University's technical assistance programmes for developing countries, with the help of government and private credits has been selected for the job.

Readers' Roundtable

DONATIONS TO POLITICAL PARTIES

Sir,—I have read with interest the article entitled "Company Donations to Political Parties" by Prof. R. K. Amin M.P. published in your issue dated January 17. Mr Amin comes to the conclusion that companies may be allowed to donate but the fact should be widely known not only to the shareholders but also to the general public. The latter part of his conclusion is very simple since all companies are expected to disclose this important fact in the published accounts and as such any one can know of it. So far as donations by companies are considered, the government has only two rights to exercise. First, to ban it under the Companies Act which is possible since companies are not citizens enjoying fundamental rights and second, not to allow such donations as business expenditure under the Income-tax Act. Beyond this the government can hardly do anything in any sphere.

Donations, either to charitable, social, religious, political or for that matter any individual, institution or organization should be basically a personal and individual choice and not a majority decision. Such of the shareholders of a company who joined to pay, must be made to pay from their own pockets. The way the shareholders attend the annual general meetings and participate in proceedings, their contribution to the decision is next to nothing and everything rests with the boards of directors and therefore, factually the decision will be always that of the management, carrying the thumb impression of the shareholders. This is not proper either for a democracy or an industrial institution.

Strictly speaking the right to contribute to political parties should be limited to the voters and to none else. If this is done all fears of malpractices can be checked and at the same time fundamental rights of the citizens guaranteed. Since donation to political parties or individuals will be a matter of personal preferences there need not be any accounting of it and therefore no question of exemption from income-tax. Mostly it will be black money paid to a political party, none of which is recognised or known to the law of the land. Let these things remain obscure as every one expects, and is a fact as well. The logical conclusion is that firms and corporations should not be allowed by law to donate to political parties and only individuals should exercise this right but such contributions should not entitle any benefit of income-tax.

A MANAGER

THE ANATOMY OF POVERTY

Sir,—I am grateful to you for kindly publishing in your esteemed journal (January 24, 1969), the review, by Mr S. P. Chopra, of my book 'The Economics of a Backward Region in a Backward Economy'.

There is one error to which I wish to call your kind attention. It is this: Mr Chopra writes (P. 142) that the book was the product of a research work financed by the RPC of the Planning Commission to the extent of Rs 70,000. This is not correct. It is a different work which was thus financed—my report on the research project on the dispersal of industry in Bihar (with special reference to Patna and Chotanagpur divisions)—which is going to press shortly. I had a total research grant of Rs 300 only from my university towards the work I did to write my book.

Patna — Dr KEDARNATH PRASAD

Dr Prasad deserves praise for his completing a big research project on a shoe-string budget. The error is regretted.

—EDITOR

Company Affairs

TATA YODOGAWA

TATA YODOGAWA Ltd will enter the capital market on February 17 with an issue of 93,000 equity shares of Rs 100 each offered at par for cash. The issue will close on February 27 or earlier at the discretion of the directors but not before February 19. The entire public issue has been underwritten. The company has been floated by the Tata Iron & Steel Co., Yodogawa Steel Works of Japan and Nissho-Iwai Co Ltd., of Japan to manufacture steel mill rolls of all grades. The plant is to be set up at Adityapur in Bihar with an annual capacity to produce 7,800 tonnes of cast iron, steel base and cast steel rolls. The company has an authorised capital of Rs 5 crores and issued, subscribed and paid-up capital of Rs 1.59 crores. The total cost of the project (including working capital) of Rs 705 lakhs, will be financed from the issue of equity share capital to the extent of Rs 250 lakhs and from long-term rupee loans aggregating Rs 405 lakhs sanctioned, in principle, by the four financial institutions, namely, Industrial Development Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India Ltd., and the balance from short-term borrowings for working capital.

UTKAL MACHINERY

Utkal Machinery Ltd, (Utmal for short) the largest Indo-German venture in the private sector and its engineering plant has earned a satisfactory profit during the year 1967-68. The company earned a profit of Rs 24.50 lakhs during the year 1967-68. After providing for depreciation, the profit amounts to Rs 6.80 lakhs. Much of the Utmal product has been made for the first time in India. The company specializes in the design and manufacture of equipment for the iron and steel mining, pulp and paper industries and structural items such as hydraulic gates. Its manufacturing range covers, equipment for blast furnace installations, steel mills, sintering plants, pig casting machines, ore preparation plants, equipment for chemical and petroleum industries, crushing, screening and grinding machinery for ores and minerals and equipment for making cellulose, paper and cardboard. The company has entered the current financial year with a satisfactory backlog of orders both in terms of total value and product-mix.

WALCHANDNAGAR INDUSTRIES

Walchandnagar Industries Ltd has recorded a gross profit of Rs 1.52 crores during the year ended September 30, 1968, as against Rs 46.19 lakhs a year before. After providing Rs 33.35 lakhs for depreciation, Rs 12 lakhs for development rebate, Rs 49 lakhs for taxation and Rs 7.02 lakhs for managing agents, the company has shown a higher net profit of Rs 50.71 lakhs against Rs 10.32 lakhs in the previous year. The equity divided has been maintained at 10 per cent, but the directors have in addition recommended a bonus dividend of two per cent, subject to tax, making 12 per cent for the year. Sales increased during the year from Rs 5.42 crores to Rs 7.80 crores as a result of partial decontrol of sugar. The company crushed 167,000 tonnes of cane against 146,000 tonnes in the previous year. The recovery rose from 10.78 per cent to 11.37 per cent and the production of sugar from 158,102 bags to 190,908 bags. To the net profit is added a sum of Rs 1.34 lakhs which is income not relating to the year and Rs 21,196 which are provisions no longer required. At the same time, expenses not relating to the year of Rs 5.66 lakhs are deducted.

MCKENZIES

The working of Mckenzies Ltd for the year 1968 has resulted in a reduced gross profit of Rs 9.91 lakhs against Rs 16.31 lakhs for the previous year although there was a rise in sales from Rs 2.21 crores to Rs 2.31 crores. Out of the profit the directors have provided Rs 3.69 lakhs for depreciation and Rs 11,417 for development rebate reserve. With the transfer of Rs 1.10 lakhs from the reserve for development rebate and development reserve and the balance of Rs 3,517 brought in, the disposable surplus amounts to Rs 7.24 lakhs out of which taxes claim Rs 1.69 lakhs, the bonus to employees Rs 3.53 lakhs and the general reserve Rs 1.97 lakhs, leaving a balance of Rs 5,715 to be carried forward. The directors have observed that the company had to encounter the strain of recession during the year with the railways further reducing their orders and the prices of wagons declining in the face of an increase in costs. The company has intensified its efforts to diversify its activities and taken up regular manufacture of forklifts and other material handling equipment. It is trying to enter the export market too.

GOODYEAR

Mr C. J. Pilliod, Vice-president of the Goodyear International Corporation, USA, was in Calcutta to study the detailed execution of the current expansion programme for implementing the present authorized licence of 513,000 automotive tyres and tubes. He will visit the Goodyear factory at Ballabgarh. Under the expansion programme, Ballabgarh factory will be Goodyear's largest plant in Asia. The progress of the two million bicycle tyre and tube plant will also receive his attention. He will discuss the export opportunities of Goodyear tyres with the management.

UNICHEM LABORATORIES

Unichem Laboratories Limited are proposing to issue bonus shares in the ratio of one share for every five shares held to mark the company's jubilee year. The directors have, however, pruned the dividend from 11 per cent to 10 per cent for the year ended September 30, 1968 with a view to conserving their resources. The working results for the year disclose an increase in gross profit from Rs 32.38 lakhs to Rs 41.41 lakhs. The company's turnover amounts to Rs 3.12 crores against Rs 2.48 crores last year. After providing Rs 7.85 lakhs for depreciation, Rs 18.50 lakhs for taxation and Rs 1.05 lakhs for development rebate reserve the net profit is also higher at Rs 14 lakhs against Rs 10.24 lakhs last year. After making certain adjustments a sum of Rs 15.97 lakhs is transferred to general reserve from which the proposed dividend will be paid. It will claim Rs 4.50 lakhs. The company has received an industrial licence for the manufacture of protein foods such as 900 tonnes of protein toffees, 1,500 tonnes of biscuits and 3,000 tonnes of weaning food for babies. These products will have 25 per cent protein. The plant is expected to go into production before the close of this year. The company's exports went up by 22 per cent over the year. The company has established good contacts in several countries in the Far East and Africa.

PRECISION BEARINGS

Precision Bearings Limited has reported an improvement in its working during the year ended August, 1968. The turnover has risen to Rs 102 lakhs from Rs 90 lakhs in the previous year while the net profit is Rs 1.99 lakhs against a net loss of Rs 1.79 lakhs last year, after providing Rs 10 lakhs for depreciation. After adjusting the net profit against the accumulated loss of Rs 42.49 lakhs the deficit amounts to Rs 40.73 lakhs and is being carried forward to next year's account. The directors hope that with the development of new bearings to substitute imports, the company's profitability would improve. The company proposes to embark upon a phased programme of capital expenditure to consolidate its

position further. With the installation of certain balancing equipment the company hopes to improve the productivity and the quality of its products.

ARUNA SUGARS

Aruna Sugars Ltd has produced satisfactory results with a higher gross profit of Rs 68.48 lakhs against Rs 14.89 lakhs as a result of increase in sales from Rs 1.86 crores to Rs 2.22 crores in 1967-68. Allocations are: depreciation for the year and the previous years Rs 40.57 lakhs and managing agency remuneration Rs 3.84 lakhs. No provision has been made for taxes as the company has no tax liability. After writing off miscellaneous expenditure amounting to Rs 4.13 lakhs and providing for the proposed equity and preference dividends, the company has transferred a sum of Rs 4 lakhs to the general reserve and carried forward the surplus of Rs 20,110. The directors have stated that the company's working results so far have been encouraging though the recovery of sugar is bound to fall this year because of the longer summer. The profitability is expected to be satisfactory in spite of the changes in the sugar release policy. The factory has planted sugarcane in 7,500 acres and expects to crush about 250,000 tonnes of cane. It had crushed 100,000 tonnes of cane and recovered 101,365 bags of sugar in 1967-68 against 113,000 tonnes and 106,856 bags respectively in the previous season, the rate of recovery amounting to 10.12 per cent against 9.40 per cent.

SHIVAJI WORKS

Shivaji Works Ltd has shown encouraging progress during 1968, with sales exceeding Rs 1 crore. The company is at present supplying castings to its holding company, Kirloskar Oil Engines Ltd, and other companies in the Kirloskar group. All these companies have their expansion programmes and want the company to supply more castings. To cope up with the increase in demand, the company has plans to expand the foundry capacity by the installation of electric furnaces and other foundry equipment. For financing partly the proposed expansion programme, the directors have decided to issue fresh equity capital of Rs 10 lakhs to be issued as rights shares to the existing shareholders at par in the ratio of 10 new shares for every 17 shares held.

SHREE SITARAM SUGAR

As a result of the rise in sales from Rs 137.36 lakhs to Rs 148.84 lakhs, Shree Sitaram Sugar Co., Limited has made a net profit, after providing for depreciation, and development rebate reserve, of Rs 7.88 lakhs for the year ended August 31, 1968, against a loss of Rs 2.88 lakhs incurred in the preceding year. In respect of allocations, depreciation is reduced to Rs 1.15 lakhs from Rs 1.30 lakhs, while development rebate reserve is raised to Rs 26,000 from Rs 20,000. A sum of Rs 3.00 lakhs is provided for taxation. The directors have proposed to pay a dividend of 50 paise per share as against nil previously. The quantity of cane crushed is lower at 671,000 quintals against 813,000 quintals and so also sugar manufactured at 64,633 quintals against 76,476 quintals.

HINDUSTAN TWYFORDS

Subject to the approval of the central government the directors of Hindustan Twyfords Limited have a proposal to change the name of the company into Hindustan Sanitaryware and Industries Limited. There is also a proposal to convert 20,000 preference shares of Rs 100 each, which have not been issued by the company and have not been taken up or agreed to be taken up by any person, into 200,000 equity shares of Rs 10 each.

ANGELO BROS

Angelo Brothers Limited has, during the year ended August 31, 1968, recorded a net profit, after providing for depreciation, of Rs 25.19 lakhs against Rs 19.66 lakhs in the preceding year. Adding Rs 17,878 being the balance brought forward from 1966-67, there is an available sum of Rs 25.37 lakhs. From this Rs 15.71 lakhs is provided for taxation, Rs 7,037 for development rebate reserve and Rs 1.62 lakhs for general reserve. The directors have proposed to raise the dividend from 16 to 17.5 per cent. This is payable on or after the general meeting, the date of which will be fixed later on.

CALCUTTA SHIPPING

The Calcutta Lading and Shipping Company Limited has made a net profit of Rs 53,132 for the year ended October 31, 1968, against a loss of Rs 49,198 incurred in the preceding year. A sum of Rs 21,250 is provided for taxation. The directors have proposed a dividend of 3 per cent after a lapse of four years as last dividend of 11 per cent was paid for the year 1964-65.

INDIAN ALUMINIUM

The Indian Aluminium Company Limited has applied to the Controller of Capital Issues for permission to make an issue of Rs 7 crores (7.75 per cent) debenture stock 1980-84 at par, by way of a public issue. The issue, which will be fully underwritten, is expected to be made during April this year. The company's proposal is to make the issue on a deferred payment basis, that is to say, that 50 per cent of the issue price will be payable on application and the balance 50 per cent on a fixed date to be named in the prospectus, approximately, six months after the date of closing of the subscription lists.

HONGKONG AND SHANGHAI BANKING

The directors of The Hongkong and Shanghai Banking Corporation have announced that the profit of the bank, including dividends from subsidiaries, for the year ended December 31, 1968, after providing for taxation on profits on the same basis as in previous years and after making transfers to inner reserves out of which provision for diminution in the value of assets has been made, amounts to HK $74.89 million. These figures are subject to audit. The group accounts will be published at a later date. It is proposed to make a transfer of HK $10 million to the published reserves and to write HK $2 million off bank premises. It is then proposed to pay a final dividend of seven shillings and two pence per share costing HK $36.57 million and a special cash bonus for the year ended December 31, 1968, of one shilling and one penny per share costing HK $5.52 million leaving a balance to be carried forward of HK $10.44 million. It is further proposed to recommend to shareholders at an extraordinary general meeting to be held on March 28, 1969, that a free scrip issue be made of one new share for every ten held on that day, by the capitalisation of HK $17.39 million of the reserve fund.

CAPITAL AND BONUS ISSUES

Consent has been accorded to six companies to raise capital amounting to over Rs 1.96 crores. Five of them are to issue bonus shares amounting to Rs 91.87 lakhs. The amount of bonus shares ranges between Rs 5 lakhs and Rs 37.87 lakhs. The consents are valid for 12 months. The following are the details:

The Empire Dyeing & Manufacturing Co. Ltd, Bombay, has been accorded consent to capitalise Rs 9 lakhs out of its general reserve and issue fully-paid equity shares of Rs 15 each as bonus shares in the ratio of one for two equity shares held.

Asian Distributors Ltd, Bombay, has been given consent to capitalise Rs 10 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for five held.

The Indian Aluminium Cables Ltd, Delhi, is granted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consent to capitalise Rs 30 lakhs out of its general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of three for four held.

Mettur Industries Ltd, Madras, has been granted consent to capitalise Rs 37.87 lakhs out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two held.

Sundaram Finance Ltd, Madras, having a subscribed and paid-up capital of Rs 90 lakhs, is accorded consent to issue further capital of Rs 10 lakhs in equity shares of Rs 100 each, of which shares of the value of Rs 5 lakhs will be issued for cash at par on rights basis and the balance of Rs 5 lakhs as bonus shares by capitalising a like amount out of its general reserve in the ratio of one bonus share for every 18 equity shares held.

The Thana Electric Supply Co. Ltd, Bombay, has been granted 'No Objection' to issue capital of Rs 1 crore in 7.75 per cent debentures of Rs 100 each, for cash at par. Of this, Rs 50 lakhs will be offered to public for cash and the remaining deposited with banks and financial institutions as collateral security for cash-credit facility. The proceeds are to be utilised for meeting capital expenditure for the expansion programme for development and distribution system of electric supply.

LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the four weeks ended December 28, 1968. The list contains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting—and annual installed capacity.

During the Week ended December 7, 1968

LICENCES ISSUED

Telecommunications

M/s T. R. S. Goel, 53, Dwarkapur, Muzaffarnagar, (Uttar Pradesh)—Silicon Semiconductor Devices (Transistors & Diodes)—6.5 million devices; High Stability/Precision Resistors—10 million nos. (N.U.); M/s Hindustan Conductors Pvt. Ltd, 24, Brelvi Sayed Abdulla Road, Bombay-1. (Gujarat)—Semiconductor Devices. (Transistor & Diodes). (N.A.);

Sugar

M/s Ashok Sahakari Sakhar Karkhana Ltd, Ashoknagar, P.O. Karegaon Factory, Taluk Shrirampur, Distt. Ahmednagar, (Maharashtra)—Sugar—Crushing capacity of sugarcane 1100 tonnes per day. (2600 tonnes per day after expansion). S.E.).

CHANGE IN NAMES (Owners or Undertakings)
(Information pertains to particular licences only)

From M/s Jaipuria Kajora Collieries Ltd. to M/s Jaipur Samla Amalgamated Collieries Ltd.

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s The Empire Dyeing and Manufacturing Co. Ltd, Bombay-83.—Penicillin Vials.

During the Week ended December 14, 1968

LICENCES ISSUED

Fuels

Shri Satya Kumar Dutt, (M/s B. N. Dutt & others) Chapapur Colliery, P.O. Nirsachatti, Dhanbad. (Bihar)—Coal—24,000 tonnes. (C.O.B.).

Textiles

M/s Jay Silk Mills, Lal Darwaja, Vadtal Devi Road, Surat. (Gujarat)—Art Silk Fabrics—99 Power looms for the manufacture of Art Silk Fabrics acquired from M/s Wintese Mills, Surat. (C.O.B.).

Sugar

M/s Rahuri Sahakari Sakhar Karkhana Ltd., Shri Shivajinagar, Rahuri Factory Sub-post Office, Taluka Rahuri, Distt. Ahmednagar, (Maharashtra)—Increase in crushing capacity by 1100 tonnes per day. (Capacity after expansion 2600 tonnes per day). (S.E.).

Food Processing Industries

M/s Visakha Flour Mills, Alluri Seetharamaraj Road, Surya Bagh, Visakhapatnam. (A.P.)—Wheat Products—16,800 tonnes on three shift basis. (C.O.B.); M/s Elgin Electric Flour Mills, 11, Hosur Road, Bangalore. (Mysore)—Wheat Products—4920 tonnes on three shift basis. (C.O.B.); M/s Dhanraj Sagarmul Roller Flour Mills, Sahibganj, (Bihar)—Wheat Products—10464 tonnes on three shift basis. (C.O.B.).

Rubber Goods

M/s Goodyear India Ltd, R-581, New Rajinder Nagar, New Delhi-5. (Haryana)—Bicycle tyres—2 M. Nos; Bicycle tubes—2 M. Nos. (N.A.).

LETTERS OF INTENT

Drugs & Pharmaceuticals

M/s Bharat Starch & Chemicals Ltd, 25, Brabourne Road, Calcutta. (Haryana)—Glucose—3000 tonnes; Dextrose—3000 tonnes. (N.A.).

Food Processing Industries

M/s Kaira District Co-operative Milk Producers Union Ltd, Anand. (Gujarat)—Baby Food—2500 tonnes. (S.E.); M/s Nawabganj Sugar Mills Co. Ltd, P.O. Box No. 2028, 3, Cavalry Lines, Delhi-7. (Uttar Pradesh)—Fruit & Vegetable Products—7500 tonnes. (N.U.).

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s Velmurugan Mills (P) Ltd—Cotton Yarn; M/s Asian Industries Corporation, Bombay—Cotton Yarn.

During the Week ended December 21, 1968

LICENCES ISSUED

Agricultural Machinery

M/s Escorts Limited, 6, Pratap Building, Connaught Circus, New Delhi-1. (Haryana)—Hamilton Petrol Graders (50 MP)—100 nos; Hamilton L.B. Loader attachment (10 c.ft.)—200 Nos; Hydraulic Digger Excavator attachment (MX-21)—600 Nos; Hydraulic Pump Units—600 Nos; Hydraulic Control Valves—1500 Nos; Hydraulic Cylinders—2000 Nos. (N.A.).

Earthmoving Machinery

M/s Bird & Co. (P) Ltd., Calcutta. (West Bengal)—Crawler Tractors KS Model (50 HP) & Hanomag K7 (84 HP) with Dozer and Loader attachments—150 nos. (N.A.).

Chemicals

Dr Beck & Co. (India) Ltd, Bombay-Poona Road, Pimpri, Poona. (Maharashtra)—Wire Enamels and Impregnating Varnishes—4500 tonnes after expansion. (S.E.).

Food Processing Industries

M/s Maize Products, P.O. Kathwada—Ahmedabad-2. (Gujarat)—Anhydrous Dextros—1000 tonnes. (N.A.).

LICENCES REVOKED OR SURRENDERED
(Information pertains to particular licences only)

M/s Wyeth Laboratories Ltd, Bombay—Cyclosercine Tablets and Capsules; M/s Wyeth Laboratories Ltd, Bombay—Ethylestrenol Tablets; M/s Prag Vanaspati Products—Oxygen Gas.

During the Week ended December 28, 1968

CHANGE IN NAMES (Owners or Undertakings)
(Information pertains to particular licences only)

From M/s East Asiatic Company (India) Limited to M/s Tata Oil Mills Company Ltd; From M/s Mahindra Engineering Co. Ltd to M/s Mahindra & Mahindra Ltd.

BOOKS BRIEFLY

A Mixed Bag

Swarajya, Annual Number, 1969: Edited by Pothan Joseph; Printed and Published by T. Sadasivam on behalf of Messrs Bharathan Publications Private Ltd, at the Kalki Press, Chetput, Madras-31; Pp. 240; Price Rs 5.

Swarajya's annual number for 1969 covers, in 46 different articles, not only political and economic problems facing this country but religious, scientific, administrative and social aspects as well. This annual appears every year on the birthday of Khasa Subba Rau, the founder editor of 'Swarajya', as "a memorial and also an occasion for grief that this champion of English journalism is no more with us".

Mr Phiroze J. Shroff has paid well-deserved, rich tribute to Rajaji "for his matchless service to the nation". Discussing the new liberalism in this country, Mr M. R. Masani has pleaded for a decent society by decent methods. "We cannot create a free and equal society by expropriation, liquidation, lying, as the communists claim they can" opines Mr Masani. In Mr K. Santhanam's view, "the promotion of social justice has been delayed in India owing to the foolish obsession in favour of nationalization and government undertaking"; he has expressed the hope that some members of the Planning Commission and of the central cabinet who have realised this fact, "will be able to face the faddists, reduce the range of bureaucratic production to the minimum, and induce the central and state governments and local bodies to concentrate on their true function of securing social justice". Mr K. M. Munshi has lamented the "widespread assault on the rule of law". Commenting on the students' behaviour in recent years, he has held "the decline of the moral authority of the home and the family" responsible. Mr M. A. Sreenivasan has highlighted the regional problem in an interesting manner by foreseeing the response of different states on man's yet-to-be-attained success in rain making.

Mr B. Shiva Rao has reviewed the working of the United Nations during the past two decades and has come to the conclusion that under the present circumstances "it is futile to expect the UN to develop into a world government". The list of contributors includes such versatile writers as P. Kodanda Rao, R. R. Diwakar, P. Spratt, N. G. Ranga, M. Ruthnaswamy, S. Bhoothalingam, C. H. Bhabha, S. Narayanaswamy and many others.

FOR THE CHILD

Yojna Annual Number: Chief Editor, Saradindu Sanyal; Published by the Director, Publications Division, Patiala House, New Delhi; Pp. 76; Price 25 paise.

This annual number of 'Yojna', fortnightly journal published on behalf of the Planning Commission, deals with the theme "Child in developing India". A series of articles focus attention on the need for fair deal for children and the importance of adequate diet in childhood. In an interview, Dr P. V. Sukhatme, director of the statistics division of FAO in Rome says that "diet protein deficiency if it is allowed to develop is certainly a very deadly thing. It will retard the growth of a child and result in low weight, low height, thin limbs, swollen stomach, and possibly retard even his mental development which cannot be made up in later life." An attempt has been made in this special number to show the steps which are being taken in this country to provide nutritious food to children, including the mid-day meals scheme. The child welfare work currently being done in some states has been described. The problems of delinquency, the drop-outs in school, the special needs of the tribal communities and the importance of a national policy for child welfare have also been covered. Recommendations of the committee set up by the Government of India in October, 1967, to study the problems of child welfare have been listed in a special article

THE AGRICULTURAL REVOLUTION

Explosion Hunger—1975: Edited and Published by L. T. Karamchandani, Seema Apartments, Bullock Road, Bandra Bus Stand, Bombay-50; Pp. 80; Price Rs 5.

At a time when the foodgrains position in this country is looking a little brighter, this publication spotlights the gigantic food problem which this country is likely to face in the coming years unless certain essential steps are taken, especially in regard to agricultural inputs and family planning. It covers all aspects of the food problem such as seeds, fertilizers, pesticides, livestock, credit, transport, consumers, family plannin; and international co-operation. The list of contributors includes Jagjivan Ram, J. R. D. Tata, M. S. Swaminathan, L. N. Birla, Homi J. H. Taleyarkhan, Shah Nawaz Khan and many others. The moral is that the spectre of hunger will vanish only if we are able to reach self-sufficiency in foodgrains by 1970-71 which implies our producing not less than 120 million tonnes of foodgrains in that year.

ENGINEERING SERVICES

Technical and Engineering Services Directory: Published by the Indian Engineering Association, 6, Netaji Subhas Road, Calcutta-1; Pp. 60; Price Rs 5.

The Indian Engineering Association has brought out in recent months some useful pamphlets. The Directory under reference describes the services offered by 23 engineering companies. The appendix to this booklet assists in locating the companies which are in a position to offer specific services in different industries. For example, under "market survey" no less than nine companies have been listed but the services available from each are confined to specific industries. Thus there is only one company, namely, McNally-Bird Engg. Co. Ltd, which has facilities for conducting market surveys in electronics.

FASIC INFORMATION

Trading with the World (Country Profiles): Published by the Indian Institute of Foreign Trade, 41-A, Friends Colony, Mathura Road, New Delhi; Pp. 560; Price Rs 19.75.

This is a useful publication for exporters as "it brings together in one cover comparable, basic, economic and marketing information in relation to various countries". For those who are out to explore new markets for our traditional and non-traditional goods it will prove a handy companion as it describes in brief the economy, the foreign trade, the import policy and specifically our trade with each of the 100 countries listed here.

RECORDS AND STATISTICS

Mobilising Idle Capacity for Exports

DISCUSSIONS HAVE been held between the Secretary, Ministry of Industrial Development, Mr N. N. Wanchoo, and representatives of five industries (wire ropes, arc welding electrodes, commercial vehicles, cast iron spun pipes and house service electricity meters), for mobilising idle capacity for stepping up exports. Certain sectors of the engineering industry have been facing the problem of idle capacity for the last two years. Although there are indications of recovery in a few industries, estimates for the next three to four years show that the capacity already built in these industries cannot be fully used. It was decided in November 1968 that the Ministry of Industrial Development should take the initiative in organising a series of dialogues with the representatives of selected industries. These dialogues have spotlighted specific areas in which exports can be increased. The highlights of these discussions are given below:

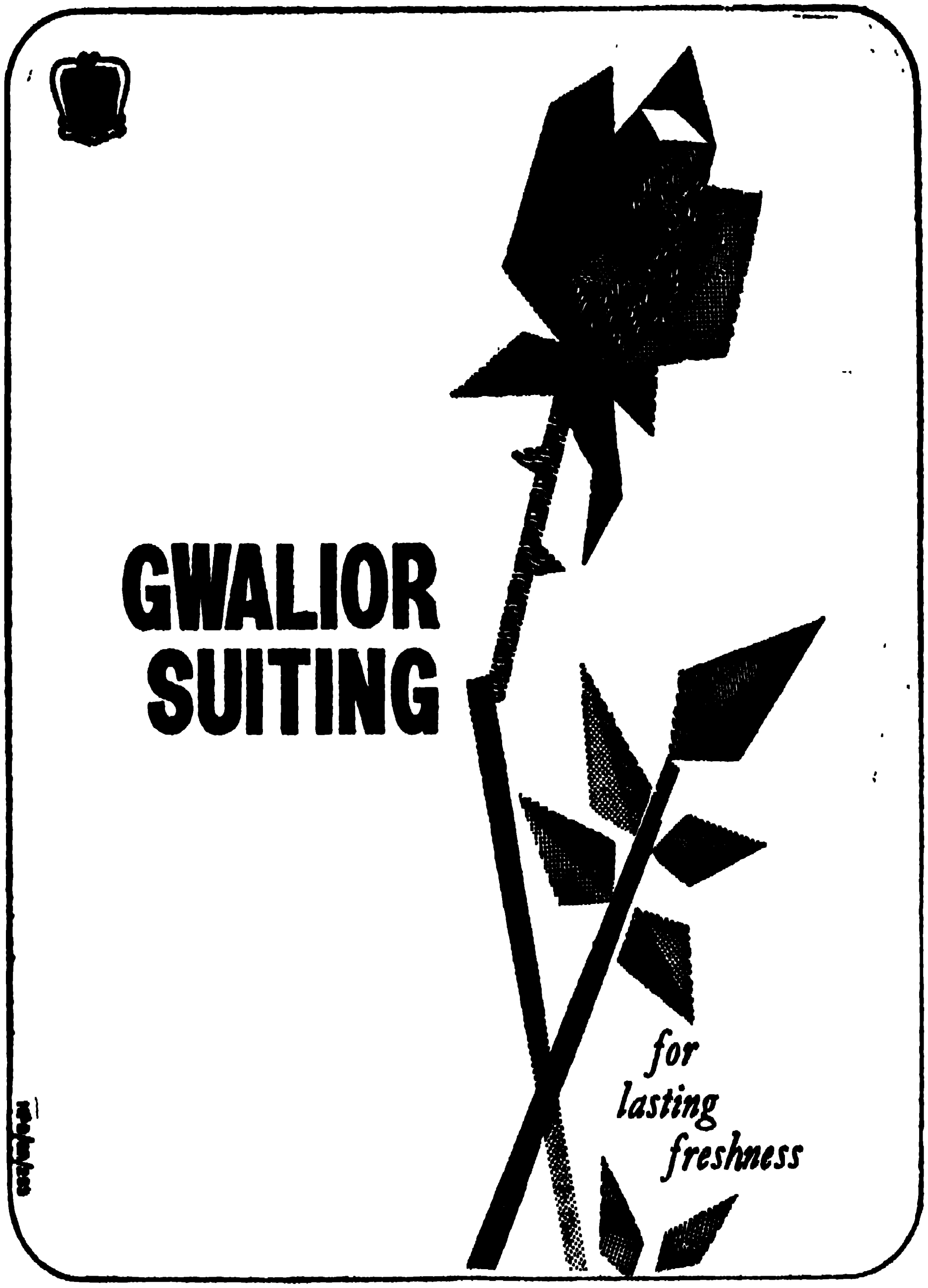
Wire Ropes: The capacity utilisation in the wire ropes industry is less than 40 per cent. The prospect of stepping up this rate of utilisation by domestic demand alone is not very bright, as its major product, haulage ropes, caters to the coal industry. It is possible to step up the current exports of the industry from the existing 5,000 tonnes per year to approximately 20,000 tonnes a year by the end of the fourth Plan, as considerable export markets exist in eastern and western Europe and the American continent. The opening up of these distant foreign markets for our wire ropes is somewhat inhibited by high ocean freight rates. In order to obviate this problem, the industry has agreed to study warehousing operations abroad wherever feasible and to co-ordinate shipments of wire ropes with those of rolled steel and steel tubes with a view to negotiating favourable freight rates with the shipping companies. It has also agreed to study the possibilities of diversification of wire ropes for export markets by going into items such as auto control cables. Certain requests received from the industry for additional export assistance are under government consideration. It is proposed to sponsor a delegation of the wire rope manufacturers along with a representative of the government to establish commercial contacts in eastern Europe, particularly Poland and the USSR. In the meantime, arrangements have been and are being made to include this item in the bilateral trade protocols between our country and east European countries.

Arc Welding Electrodes: The percentage utilisation of capacity by the older established units in this industry is 40 while that for the newer units is less than 30 per cent. The outlook for a spurt in internal demand in the near future is not hopeful, as the industry to which it caters viz., the structural fabrication industry, is itself faced with the problem of idle capacity. There has been an improvement in exports of arc welding electrodes from Rs 7 lakhs in 1967-68 to over Rs 21 lakhs in 1968-69. The international market for arc welding electrode has been reported to be considerable; but the industry has hitherto not surveyed all the potential markets. The representatives of the industry present at the meeting agreed to take immediate steps to collect and collate foreign market intelligence as a first step in its export drive. Possibilities for export in this field are however not limitless, as some of the developing countries are putting up their own electrode plants. But, on the other hand, for these very countries, considerable export possibilities exist through supply of core wire and readymix flux powder. The industry has agreed to consider collective export marketing of electrodes and electrode materials. The price competition in international markets being very keen, the industry has made a request to the government to supply indigenous rutile at international prices and also to refix the current concessional price of indigenous electrode quality steel billets/wire rods truly in line with international prices. This request is receiving the attention of the government and will be processed as soon as some further data asked for from the industry is received.

Commercial Vehicles: Two of the four major units in the industry have practically no idle capacity whereas two others are working to 50 per cent or below their capacity. All the manufacturers of commercial vehicles and jeeps are keen to export and have expressed their readiness as a matter of company policy to promote exports. In the current year 1968-69 approximately 1000 vehicles are expected to move in exports, partly because of the favourable climate in the Ceylonese market through the Rs 50 million Indian government credit to the Ceylonese government. The industry expects to be able to sell for export by 1973-74, 12,000 commercial vehicles per year. While the current export prices for sales to certain markets do not present a problem, sales of vehicles to certain others are beset with very severe competition from Japan.

The industry has made certain requests to the government for additional export assistance, which is being considered. There are serious problems in the export market. These are the reluctance of shipping companies to carry built up vehicles, high ocean freight rates and the challenge of international competition including deferred payment and hire-purchase facilities given to buyers. These problems are being taken up with the appropriate authorities in order to enable our industry to compete effectively. One of the Indian manufacturers has participated in a joint venture in Ceylon in the establishment of an assembly-cum-manufacturing plant for vehicles and this is expected to pave the way for considerable exports of automobile ancillaries from this country, apart from the spare parts exports which would follow in the wake of complete vehicles being exported.

Cast iron spun pipes: The average capacity utilisation in this industry is 30 per cent. Six units in the industry have either already closed down or are on the verge of closure for lack of domestic offtake. Unless investments in the fourth five-year Plan in water supply and sewerage schemes are considerably stepped up, this industry will have to live with the problem of considerable idle capacity for the next five years. The current export of 4000 tonnes of cast iron spun pipes from the country is about one per cent of its capacity. The industry is now aware that its survival rests on its capacity to export. It has been agreed at the meeting that the indusry will present concrete proposals to the government within a short time about its proposals to organise its export drive. It has further been agreed that an officially sponsored delegation of the cast iron spun pipe manufacturers along with representatives of public health consultancy firms and a government representative in the Ministry of Health specialising in public health engineering should visit potential markets in south-east Asia, west Asia and Africa for assessing foreign demand for our spun pipes. The delegation will not only confine itself to extensions to existing water supply and sewerage schemes in those countries but will also present to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the public health engineering authorities in those countries complete blue-prints for undertaking new schemes. In this process, it is hoped not only to sell spun pipes abroad but also public health engineering plants such as water treatment plants, sewerage treatment plants and pumping plants for the manufacture of which considerable capacity exists in our country. A substantial market exists in the USA, Kuwait and other countries for spun soil pipes of small diameters for which the industry has agreed to equip itself technically. Moulds for catering to foreign markets demanding inch size pipes will be allowed to be imported or metric moulds converted for the purpose. As most of the foreign markets for spun pipes eliminate lead joints and call for Tyton joints, arrangements have been made by the main licensee of Tyton joints in our country to share the know-how with other spun pipe manufacturers. This step is expected to open up new markets for spun pipes from this country.

House service electricity meters: The capacity utilisation in this industry is approximately 70 per cent. There is some recovery in home demand; but the industry will have a comfortable minimum annual surplus of 300,000 meters for export throughout the period of the fourth Plan. Foreign markets exist for absorbing this surplus in Asia, Africa and Latin America. The foreign demand for meters is both in the category of 120 per cent overload and 400 per cent to 700 per cent overload meters. The industry has agreed at the meeting to take immediate steps to organise an export pool scheme by levying a small surcharge on its domestic sales and using the funds so collected to support exports.

This has become necessary, as the current export assistance from the government has been considered somewhat inadequate to bridge the difference between the f.o.b., costs and f.o.b., recoveries, because of severe international competition. The industry has also agreed to place at the disposal of the State Trading Corporation meters for export on the basis of marginal costs. The industry is facing certain critical shortages of raw materials and components such as CRCA sheets, magnets, aluminium alloy strips and resistance wires. The government has agreed to consider their imports (to supplement domestic supplies) within the import replenishment earned by the industry on its exports of meters. It is also proposed to consider the feasibility of integrating Indian specifications with export specifications for meters to the extent possible so as to avoid extra tooling costs.

A Plea for Sustained Export Efforts

THE UNION Commerce Minister, Mr Dinesh Singh, called for an aggressive export drive to be mounted on the basis of the policy framework and the favourable economic conditions which now prevailed in the country. Speaking at the third meeting of the Board of Trade held in New Delhi, on January 23, the Commerce Minister suggested that this effort should be directed mainly towards the developing countries. "This would enable us to achieve our objectives in the export field quicker and in a more enduring fashion", he said.

Referring to the poor response from the big industrialists in taking advantage of the facilities provided by the government in the Kandla Port, he said: "The response for the use of these facilities has so far been somewhat discouraging." He said that whenever he discussed this question with industrialists, especially those non-resident Indians who were abroad, they were only making further suggestions for improving or increasing the facilities without coming out with suggestions for starting industries. The government could not, he said, be giving concessions unilaterally; there had to be some concrete response to what had been offered so far.

The following is the full text of the Commerce Minister's speech:

"I have great pleasure in welcoming you today at the third meeting of the Board of Trade. It is more than six months since we met in this Board last and my pleasure in meeting you after such a long interval is heightened by the events in the intervening six months in the field of exports which must necessarily be uppermost in the minds of all of us.

During this period, exports have reached record levels never matched before even in 1964-65 which was the best year for exports.

Total exports during the period April-November 1968 were Rs 908 crores as against Rs 797 crores in the same period of 1967-68, that is, higher by as much as Rs 112 crores. This increase of over 14 per cent in exports has been fairly sustained except in the month of June 1968 when the exports were only marginally higher than June 1967 and there has been consistently a better performance in every month of 1968-69. Indeed, the trend has been sufficiently sustained to make us look forward to its continuation and if we continue to make the same determined efforts for export promotion as in the past couple of years, we may even succeed in accelerating the upward trend. I would, however, like to emphasise that, unless we pursue efforts to step up exports with vigour, determination and imagination, it is easy to lose the gains which have been secured in the past few months.

Proper Climate

The fact is that the improvement in exports this year has been achieved for the most part under the non-traditional items, especially engineering goods, iron and steel, chemicals and allied products. This augurs well for the future of exports because international trade in primary products has been in the doldrums for a long time and the growth of industrial exports is the only enduring solution of the balance of payments problem of an industrialising country such as ours. As much as 57 per cent of the increase in exports during the current year as compared over the same period of the preceding year is accounted for by non-traditional exports. This is not merely a reflection of the fact that after nearly two decades of incessant efforts, our industrialisation appears, at last, to have come of age but also of the fact that a proper climate of exports has been created by government's efforts and the cooperation of the manufacturing and exporting community over the past few years.

At the last meeting of the Board, the need for broad stability and continuity in export policies was emphasised. I should like to take this opportunity of re-affirming government's concurrence in this view. At the same time, steadily, if in a somewhat unspectacular manner, government is trying to construct a solid foundation for a viable and vigorous growth of exports.

In these efforts, I derive invaluable assistance from the deliberations of this body which have succeeded in pin-pointing attention on the major problems which the exporting commu-

nity encounters and in devising constructive solutions for those problems. Without going into the philosophy of exports, I would wish to stress the fact that while government, with the best will in the world, can do no more than create congenial conditions for exports, the actual task of effecting exports would always have to be the responsibility of exporting community. It is also because of the frank discussions in depth with you in this body that government is able to keep in touch with the problems which exporters encounter from day to day.

Our achievements so far are certainly a matter of gratification but do not warrant any relaxation of our efforts.

Indian Export Service

An example of the consistent endeavour of government to build up the infrastructure of exports is provided by the steps which have been taken to improve the overseas information basis of exports by the circulation of the tender notices of foreign countries in the most expeditious manner. As you would no doubt have seen the agenda papers circulated to you, the principal channel for disseminating information regarding foreign tenders is our weekly publication, namely, the Indian Export Service Bulletin. The weekly publication of this bulletin sometimes does not permit information regarding foreign tenders to be furnished in time in the case of short-timed tender notices.

In such cases, the notices are despatched immediately to the Export Promotion Council concerned, or, where appropriate, to the STC or to the only manufacturer, if such is the case, of the product concerned. In 1968, over 3000 items were published regarding tender documents or invitation to global bids in this bulletin. Efforts are also made to furnish information for the benefit of newcomers to global tendering, on such pieces of information as bid bond, performance bond, security, basis of quotations, etc. The description of the required product including its specifications is also given to the extent possible. It is the hope of government that you would find this particular service useful which may perhaps be considered to be your window on the world. I should welcome suggestions from the members of this Board for improvement of this service which constitutes an important rung of the ladder of export success.

Kandla Free Trade Zone

As you are no doubt aware, another important step in the building up of export infrastructure is the setting up of the Kandla Free Trade Zone since 1965. It is the first experiment of its kind in India and it is a matter of some concern to government that the industrial and trading community of this country has not so far taken sufficient advantage of this facility. The zone covers an area of 320 acres where it is possible to produce goods for export at competitive rates without going through the processes of first paying duties and taxes leviable in this country and then securing their reimbursement. Apart from the fact that all plant, machinery, components and raw materials imported into the zone are completely exempt from customs and excise duties, other facilities for exports are also generally extended to this zone. Thus, the policy of import replenishment for registered exporters not only applies to units located in the zone, but, in fact such units can ask for a higher rate of replenishment than is permissible outside. At the same time, the screening committee which can grant such higher replenishment rates would also have the discretion to make appropriate downward adjustments in the rates of cash assistance including in extreme cases even denial of cash assistance. Besides this, advance import licensing for the raw materials, components and spares from the most preferred sources is also allowed on the merits of the case. Import licensing in general is allowed more liberally for units within the zone than outside it. Finally, production of goods falling below the required international standards is allowed to be disposed of within the country subject to the discretion of the authorities and payment of the normal duties. Over and above these facilities, the zone is served by a first class modern port with up-to-date mechanical cargo handling facilities.

The response for the use of these facilities has so far been somewhat discouraging. Since the establishment of the zone nearly four years ago, less than 400 applications have been considered and only 160 schemes have been approved by the selection committee. The names of a number of approved applicants have had to be struck off the list for failure to take action to set up their industries. Again, while the import licences for machinery have been approved for units in the zone up to Rs 146 crores, the actual imports had not exceeded Rs 2.5 lakhs by the end of September. While I do not wish to go into further details, it is necessary to express government's dissatisfaction with the results of this experiment so far. I shall be grateful for a thorough discussion of the difficulties, if any, which industry is experiencing in setting up industrial units in the zone so that we could strive to bring about the required improvement and make a success of this worthwhile facility.

I have referred earlier in my speech to the increase in non-traditional exports through which we are currently passing. Of these engineering goods which have shown the highest rate of growth during the past six months have undoubtedly benefited from the financial facilities which the government has sought to provide.

Export Finance

The further development of all non-traditional exports and of the export of capital goods in particular is apt to hinge significantly on the adequacy of export finance. The problem arises because our principal markets for capital goods lie in the developing countries which tend to run into balance of payments difficulties sooner or later after the beginning of the process of planned development. Recognising this, developed countries exporting capital goods have created an elaborate framework of export credit facilities with which we shall have to compete increasingly if our exports of non-traditional goods are to be developed further.

Quite clearly, the commercial banking system is not yet equipped to meet the somewhat exacting requirements of export finance.

It is in view of this that since the middle of 1967 a number of steps have been taken to ease the position in this respect. These steps include the provision of re-financing facility by the Reserve Bank at concessional rates to commercial banks in respect of export bills, the extension of the period of deferred payment from five to seven years and even up to ten years in exceptional cases, exclusion of export financing by commercial banks from the computation of their net liquidity ratio the grant of credit on concessional terms by the Reserve Bank to the commercial banks in respect of the excess of their advances to exporters over a base period, further reduction in the concessional rates for export credit, the budgetary provision by the central government of an interest subsidy in respect of advances to exporters and finally direct participation in export financing by the Industrial Development Bank of India. As you are already aware, effective export financing calls for adequate risk cover of the appropriate kind which, under our conditions, is provided by the Export Credit and Guarantee Corporation. The ECGC's insurance policies cover 80 per cent of the commercial risks and 85 per cent of the political risks. These facilities have produced a perceptible impact on the growth of the exports of non-traditional items in general and engineering goods in particular. Here, again, I shall very much welcome discussion in depth of the subject and construc-

tive suggestions for a further improvement in the elaborate financial framework for exports that we have constructed.

Another solution of the same problem of demand for imports from developing countries being tied up with the availability of credit facilities is the practice of setting up joint ventures which has become exceedingly popular in recent years. The government has always given every encouragement for setting up joint ventures abroad in a judicious manner. The purpose of such ventures should be not so much to control the policy of the venture in the country of investment as to promote the export of goods and technical know-how from this country. This mode of export has evoked encouraging response in developing countries and in the past five years 64 projects have been approved for the setting up of joint ventures in various countries. In developing countries we should be careful to see that we don't give an impression of exploitation.

We are there to help increase economic activity and ought to provide the tools, the know-how and the professional expertise.

It is significant that some of these projects are also located in such advanced countries as the UK and Canada. The government's policy is distinguished by the following main features.

Government Policy

While equity investment up to 49 per cent is permitted from India in joint ventures abroad and while the value of indigenous machinery, components, etc., can exceed the value of Indian capital participation, the latter is not allowed to exceed the former. We do not allow cash remittances for such investments. The usual import replenishments are allowed as the export of capital goods as part of a joint venture is treated as export per se. We also would prefer participation on the basis of turn-key jobs. This practice not only helps to promote exports of Indian products in foreign countries, at the time of export, but, in fact, creates a permanent demand for Indian spares and components as well as Indian technical know-how.

For an industrial economy which is fast reaching a level of maturity, this must be regarded as a most interesting outlet for sophisticated production and technical know-how. It is government's sincere hope that the industrial and trading community, which has already shown signs of becoming increasingly outward looking, will take a keen interest in this mode of export and develop it rapidly.

Today, I have touched upon a good many problems in the field of exports. As you will have noticed, the main accent of the problems which I have chosen to discuss today is on exports to developing countries. During the current year, exports to the ECAFE countries have increased by 32 per cent while those to the west Asian Arab countries have increased by over 75 per cent. Exports to Africa and Latin America, however, have shown a decline. Exports to Latin America certainly do require greater attention and, indeed, the infrastructure for exports to these countries such as shipping facilities, trade channels, etc., is yet to be developed. It is, however, important to pay immediate attention to trade with Africa, not merely because that part of the world with its rich potential for the absorption of Indian products has not yet begun to loom prominently on our export map, but also because there exists a considerable infrastructure for exports to that region. Yet another facet of the same question is the fact that with the exit of the European colonial powers from Africa, a considerable political and economic void has been created in those countries and unless we step into the latter immediately, it may be too late to cultivate markets in those countries.

You are already aware of the fact that French franc area in Africa is closely knit with France. The west African countries are already looking to the European Economic Community and some of them have association arrangements with EEC while the east African countries also have already begun to think in those terms. In addition to these cross-currents, there is also a fairly strong and deep rooted movement of economic integration in Africa, either on regional or sub-regional basis. For these reasons, it is necessary to take a more active and positive interest in developing our exports to Africa and it is worth reiterating that this must be done immediately before the hindrances which I have referred to become too firmly entrenched.

Increasingly, it is becoming clear that for the future growth of our exports we must look to developing countries and not merely to developed ones. Efforts are under way in UNCTAD, GATT and ECAFE to devise ways and means of bringing about the trade expansion of developing countries. Our own tripartite agreement with Yugoslavia and the UAR has certainly shown the way. Nevertheless, we cannot afford to rest on our laurels. An aggressive export drive needs to be mounted on the basis of the policy framework and the favourable economic conditions which now prevail in the country and this effort has to be directed chiefly towards developing countries. This would enable us to achieve our objectives in the export field quicker and in a more enduring fashion."

Wholesale Prices

WHOLESALE PRICES as measured by the official index (with the year ended March, 1953 as 100) receded by 2.6 per cent to 206.5 during December 1968, as compared to 212.1 for November 1968. The index for December 1968, was lower by 2.2 per cent when compared to 211.2 for December 1967. During the month under review 'food articles' declined by 5.0 per cent to 217.9, 'fuel, power, light and lubricants' by 0.2 per cent to 192.7 and 'industrial raw materials' by 1.6 per cent to 231.1. However, the indices for 'liquor and tobacco' advanced by 14.7 per cent to 248.6 and 'manufactures' by 0.1 per cent to 171.8 when compared to November 1968.

Food Articles

Lower prices of all the cereals brought down the index for 'cereals' sub-group by 4.2 per cent to 192.2 (At this level the index was lower by 3.9 per cent when compared to that of a year ago.) A fall in the prices of all the pulses including gram was responsible for a decline in the index for 'pulses' sub-group by 8.7 per cent to 187.7. As a result of a decline in both cereals and pulses the sub-group index for 'foodgrains' moved down by 5.1 per cent to 191.4 as against 201.6 for the earlier month. The sub-group index for 'fruits and vegetables' fell by 9.5 per cent to 212.5 due to lower prices of all the fruits and vegetables except cashewnuts which rose slightly. In December, 1968, the prices of both milk and ghee receded, with the result that the index for this sub-group declined by 3.9 per cent to 220.2. Lower prices of all the edible oils brought down the index for 'edible oils' sub-group by 6.3 per cent to 254.8. The sub-group index for 'fish, eggs and meat' advanced by 4.0 per cent to 223.4 owing to an increase in the prices of fish, eggs and meat. The prices of both sugar and gur receded during December, 1968; consequently a significant fall of 9.1 per cent was registered in 'sugar and gur' sub-group index. Among the other food articles, the prices of tea, black pepper, chillies, turmeric and salt fell while those of coffee, cloves, cummin and cardamoms registered a rise with the result that the index for this sub-group moved down from 256.6 to 254.2 during the month.

Liquor and Tobacco

Due to a rise in the price of tobacco raw the index for 'tobacco' sub-group advanced by 16.0 per cent to 245.4 and

INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS AND SUB-GROUPS OF COMMODITIES

(Base: 1952-53=100)

Groups and sub-group	Monthly Average December 1968	Monthly Average November 1968	Monthly Average December 1967	% increase (+) Decrease (—) in Dec. 1968 as compared to November 1968	% increase (+) Decrease (—) in Dec. 1968 as compared to December 1967
Food articles	217.9	229.3	239.3	— 5.0	— 8.9
Foodgrains:	191.4	201.6	215.1	— 5.1	—11.0
Cereals	192.2	200.7	199.9	— 4.2	— 3.9
Pulses	187.7	205.6	284.1	— 8.7	—33.9
Fruits and vegetables	212.5	234.9	221.6	— 9.5	— 4.1
Milk and ghee	220.2	229.2	223.4	— 3.9	— 1.4
Edible oils	254.8	271.8	280.7	— 6.3	— 9.2
Fish, eggs and meat	223.4	214.9	244.7	+ 4.0	— 8.7
Sugar and gur	270.0	297.0	355.0	— 9.1	—23.9
Others	254.2	256.6	236.5	— 0.9	+ 7.5
Liquor and tobacco	248.6	216.7	138.8	+14.7	+79.1
Tobacco	245.4	211.6	130.3	+16.0	+88.3
Fuel, power, light and lubricants	192.7	193.1	189.0	— 0.2	+ 2.0
Industrial raw materials	231.1	234.9	221.1	— 1.6	+ 4.5
Fibres	241.6	238.9	189.8	+ 1.1	+27.3
Oilseeds	246.6	261.3	276.2	— 5.6	—10.7
Minerals	146.2	144.6	148.9	+ 1.1	— 1.8
Others	187.2	183.7	181.4	+ 1.9	+ 3.2
Manufactures	171.8	171.6	164.6	+ 0.1	+ 4.4
Intermediate products	204.8	204.9	207.4	—	— 1.3
Finished products	166.4	166.2	157.6	+ 0.1	+ 5.6
Textiles	164.6	164.3	150.4	+ 0.2	+ 9.4
Cotton manufactures	160.3	160.1	156.8	+ 0.1	+ 2.2
Jute manufactures	179.6	179.4	125.2	+ 0.1	+43.5
Woollen manufactures	193.8	193.8	204.2	—	— 5.1
Silk and rayon manufactures	148.0	147.6	160.0	+ 0.3	— 7.5
Metal products	224.1	224.1	213.1	—	+ 5.2
Chemicals	155.7	154.6	149.6	+ 0.7	+ 4.1
Oilcakes	259.0	262.4	294.4	— 1.3	—12.0
Machinery and transport equipment	158.9	158.1	154.7	+ 0.5	+ 2.7
Others	137.7	137.6	135.2	+ 0.1	+ 1.8
All commodities	206.5	212.1	211.2	— 2.6	— 2.2

Source: Economic Adviser to Government of India.

the group index for 'liquor and tobacco' was marked up by 14.7 per cent to 248.6 as compared to 216.7 for the preceding month.

Fuel, Power, Light and Lubricants

The index for 'fuel, power, light and lubricants' group receded by 0.2 per cent to 192.7 due to a fall in the price of castor oil. The prices of all other items, however, remained stationary at their earlier month's levels.

Industrial Raw Materials

Higher prices of jute raw, hemp raw and wool raw pushed up the index for 'fibres' sub-group by 1.1 per cent to 241.6. The prices of cotton raw and silk raw, however, receded. The prices of oilseeds including copra fell and the index for 'oilseeds' declined by 5.6 per cent to 246.6 as against 261.3 for the earlier month. The sub-group index for 'minerals' advanced by 1.1 per cent to 146.2 due to a rise in the prices of manganese ore. Among the other industrial raw materials the prices of hides raw, skins raw, tanning materials, rubber and lac advanced while sugarcane and logs and timber remained unchanged at the earlier month's level; consequently the index for this sub-group rose by 1.9 per cent to 187.2.

Intermediate Products

The index for 'intermediate products' worked out to 204.8 as compared to 204.9 for November 1968. Items which showed variations during the month were linseed oil, zinc and coir yarn which depicted a fall, while leather, rayon yarn, aluminium and copper advanced.

Finished Products

The sub-group index for 'textiles' advanced by 0.2 per cent to 164.6 due to higher prices of cotton manufactures (+0.1 per cent to 160.3) and jute manufactures (+0.1 per cent to 179.6) and silk and rayon manufactures (+0.3 per cent to 148.0). The price of woollen manufactures, however, stood stationary at its earlier month's level. Among the cotton manufactures, the price of cotton cloth (mills) rose fractionally while handloom cloth fell slightly.

The sub-group index for 'metal products' remained stationary at its previous month's level of 224.1. Due to an increase in the price of soap, the index for 'chemicals' advanced by 0.7 per cent to 155.7. The index for 'oilcakes' sub-group receded by 1.3 per cent to 259.0 as compared to 262.4 for the earlier month. Higher prices of machinery and rubber tyres and tubes pushed up the index for 'machinery and transport equipment' by 0.5 per cent to 158.9. The prices of cycles, however, declined fractionally. Among the 'other finished products' the prices of bricks and tiles and pottery goods advanced fractionally while all other items remained unchanged at the previous month's level with the result that the index for this sub-group worked out to 137.7 as against 137.6 for November 1968. On the whole the index for 'finished products' advanced from 166.2 for the preceding month to 166.4 during December, 1968. The group index for 'manufactures' (comprising of intermediate and finished products) advanced by 0.1 per cent to 171.8 due to higher prices of finished products.

Money Supply With the Public

(Rs. crores)

Last Friday	Money Supply	Total Currency with Public	Deposit Money with the Public: Total	Net Demand Deposits of Banks	Other Deposits with Reserve Bank	Total Variations in Money Supply
1960-61	2,868.61	2,098.05	770.56	757.10	13.46	+190.16
1961-62	3,045.82	2,201.16	844.66	827.43	17.23	+177.21
1962-63	3,309.97	2,379.47	930.51	907.98	22.53	+264.15
1963-64	3,752.12	2,605.56	1,146.56	1,114.66	31.90	+442.15
1964-65	4,080.28	2,769.05	1,311.23	1,289.52	21.70	+328.16
1965-66	4,529.39	3,034.28	1,495.10	1,478.38	16.72	+449.11
1966-67	4,949.20	3,196.80	1,752.40	1,710.99	41.41	+419.81
1967-68	5,351.77	3,376.08	1,975.69	1,919.36	56.32	+402.57
1967 November ...	4,949.44	3,136.90	1,812.54	1,787.57	24.97	+ 47.53
1968 June	5,476.71	3,447.94	2,028.76	1,968.47	60.29	+ 64.07
„ July	5,388.10	3,373.29	2,014.81	1,957.99	56.81	— 88.61
„ August ...	5,290.97	3,323.67	1,967.30	1,912.32	54.98	— 97.13
„ September ...	5,251.25	3,354.30	1,896.95	1,842.60	54.35	— 39.72
„ October ...	5,316.03	3,358.75	1,957.28	1,902.83	54.45	+ 64.78
„ November ...	5,283.39	3,318.33	1,965.06	1,903.05	62.02	— 32.64

Source: Reserve Bank of India

CONSUMER PRICE INDEX NUMBERS

(Working class)

Centre	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1967 Oct.	1968 June	1968 July	1968 Aug.	1968 Sept.	1968 Oct.
(Year 1949=100)													
All India	127	131	137	157	169	191	213	217	214	213	216	218	219
Cuttack	134	142	151	178	188	213	244	252	245	242	241	244	249
Gauhati	107	112	112	128	135	158	194	203	233	227	224	227	220
Jabalpur	115	133	143	160	169	207	231	247	215	217	221	229	229
Ludhiana	106	112	119	131	139	175	199	201	204	205	209	215	216
Madras City	149	150	153	177	192	207	217	220	214	211	215	220	220
Trichur	136	137	146	164	180	199	214	217	216	223	230	232	234
(Year 1960=100)													
Ahmedabad	103	105	110	124	130	148	168	174	161	162	166	172	174
Ajmer	105	106	108	123	132	156	176	179	173	172	176	183	184
Bombay	104	106	108	119	130	147	162	162	167	166	166	167	166
Bangalore	106	109	114	124	144	159	172	178	178	179	180	184	186
Calcutta	102	108	114	124	131	148	163	171	169	172	174	174	176
Delhi	104	108	114	128	136	152	172	178	174	178	180	183	185
Hyderabad City	104	108	115	128	140	158	167	169	166	169	175	182	183
Jamshedpur	102	105	109	122	136	158	183	194	175	175	178	178	176
Kanpur	102	105	113	136	146	153	174	187	171	172	176	180	181
Nagpur	97	98	106	131	138	148	164	168	166	161	165	165	172
Sholapur	99	109	106	123	128	150	165	170	164	164	166	168	170

Source: Labour Bureau.

CONSUMER PRICE INDEX NUMBERS FOR URBAN NON-MANUAL EMPLOYEES

(Base: 1960=100)

Centre	1960-61*	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967 Sept.	1968 June	1968 July	1968 August	1968 Sept.
All-India	100	104	108	113	124	132	146	161	160	161	163	165
Bombay	99	103	107	114	125	132	142	152	157	155	159	159
Delhi-New Delhi	100	105	111	116	125	131	142	155	161	162	164	165
Calcutta	98	102	107	112	118	126	139	155	156	158	160	160
Madras	103	106	111	116	125	133	147	153	154	150	150	153
Hyderabad-Secunderabad	101	104	107	111	122	133	147	155	156	157	160	163
Bangalore	102	106	111	115	124	133	145	156	158	158	160	164
Lucknow	100	102	105	110	125	132	146	163	155	157	157	160
Ahmedabad	100	103	105	112	125	131	146	163	157	160	164	166
Jaipur	101	105	108	118	126	133	150	166	165	167	171	174
Patna	99	102	106	111	124	139	160	187	174	174	178	176
Srinagar	105	105	111	120	128	134	143	155	166	166	164	169
Trivandrum	103	105	110	115	122	131	146	163	167	166	167	169
Cuttack-Bhubaneswar	100	107	113	122	135	142	154	166	167	167	168	169
Bhopal	102	109	111	115	128	133	144	167	162	167	171	173
Chandigarh	101	105	108	114	124	129	113	158	158	161	164	166
Shillong	101	103	107	114	121	123	134	155	163	164	165	166

* Relates to the period January to March 1961.

Source: Central Statistical Organisation.

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The Revolt of the Region

IN A leading article in the issue of January 31, this journal, looking into the crystal glass of the mid-term elections, suggested that the Congress party was being forced to face consciously for the first time a challenge to its survival as the premier political party in the nation. It was then explained that, while the last general election had ended the domination of the political scene by the Congress party as a monopolist of political authority and governmental status at the central and state levels, the mid-term elections would be decisive in determining whether the Congress might expect to survive as the major political force in national affairs. Their verdict or verdicts have clearly not gone in favour of the Congress party.

To put it bluntly, the Congress is not to be regarded any longer as the overlord or even the overseer of the course of national affairs or the shaping of its political destiny. In West Bengal it has lost to the communists and in Punjab to the Akalis. It has not succeeded in Bihar in obtaining a mandate to govern and even in Uttar Pradesh, where it has secured enough seats in the legislature to be able to form a ministry with marginal support from outside its ranks, it has not been able to bring about a definite reversal of the alienation of the electorate so painfully brought home to it in the general election of 1967.

The question is: What precisely has hit the Congress party? For an answer, we have perhaps to start with the failure of the Congress party over a period to find firm ground in the politics of Kerala where it had at no time enjoyed the kind of primacy in the political affections of the people which was its fortunate lot in most of the rest of the country. It was, however, through the general election of 1967 that the story took a really dramatic turn. The most pronounced change in the Congress fortunes was registered in what was then the Madras state and what is now Tamil Nadu. The victor here was a local party with a very pronounced local habitation and a local name. A similar reverse, although less striking in its appearance, was suffered by the Congress in Orissa, where it was mastered by what was essentially a local force, viz., the erstwhile Ganatantra Parishad, attired in the garb of the all-India Swatantra party. In Rajasthan, where the local challenge to the Congress also chose to wear the Swatantra attire, victory came tantalizingly close to the reach of the challenger.

In Madhya Pradesh, a combination of local forces, uniting the popular as well as class support commanded by the House of Gwalior and the Jana Sangh functioning in this state essentially as a local rather than an all-India party, was able to displace the Congress from power. In Punjab, the majority of the electorate had already begun showing an unmistakable preference for the local party, viz., the Akali Dal. In Gujarat, with better organisation and more professionally competent leadership, the Swatantra party, appealing to the electorate in the state more as a local party than as an all-India one, might easily have made a better showing against the Congress than, in fact, it did. In Uttar Pradesh and Bihar, the absence of strong local challengers, while not helping the Congress to maintain control of the legislatures, contributed to a splintering of political authority among a multiplicity of parties following a surge of popular disaffection towards the Congress. The situation in West Bengal was similar to this except to the extent that a trend towards accepting the communist movement in the state as an authentic local alternative to the Congress had begun taking shape. The sum and substance of these results of the last general election were that in various parts of the country, where hitherto large numbers of

people were willing to identify themselves with the all-India Congress party, a subtle and strong preference was developing for regional alternatives, actual or potential, which could help the regional electorates concerned to acquire distinctive, even if not separate, political identities.

The mid-term polls have only taken this process a stage further. In Punjab, the regional party, the Akali Dal, has come into its own almost as decisively as the DMK had done in Tamil Nadu two years ago. In West Bengal, the communists, similarly, have been given by the electorate the role of the regional party of the state. This pursuit of a regional identity rather than any deliberate acceptance of ideology or programme seems to be the real explanation for the recent turn of events in West Bengal as well as for the basic communist bias of Kerala politics over the years. It is, no doubt, unfortunate that the communists happen to have qualified for the regional role in these two states, but, for a proper understanding of the present posture of our political affairs, it is clearly necessary for us to appreciate correctly the implications of the communist triumph, earlier in Kerala and now in West Bengal. The Congress retreat before the communist forces in these two states is less of a surrender in the face of a preferred political and economic ideology than the withdrawal of an essentially all-India party less able to help the electorates of those states in developing their respective regional identities than the communist movement effectively oriented towards the respective regional needs and aspirations of those states.

The "cabinet reshuffle" is discussed on pages 311 and 312.

This interpretation would also seem to apply to Uttar Pradesh, although in that state the Congress has been able to emerge as far and away the largest single contender for the control of the legislature. It is significant that the second largest party in the new UP legislature will be the BKD. It seems to have acquired its strength essentially at the expense of the various non-Congress parties, the Jana Sangh, the Swatantra, the PSP, the SSP, the CPI and the Republican party. The BKD, strictly speaking, is not a state party, but in reality it does not have much strength outside Uttar Pradesh and in the state itself it is identified with the personality and personal leadership of Mr Charan Singh, one of the most respected figures on the UP political scene. As at present, the BKD in UP shows every sign of developing into a state party with roots which are predominantly local. In Bihar, once again a local alternative to the Congress party, capable of commanding sufficiently broad-based local loyalties, has failed to emerge and this has led to a continuance of the confusion and instability which has been plaguing Bihar politics since the last general election.

In the light of this analysis, it would be reasonable to conclude that the main challenge to the Congress today springs from the regional sentiment and that wherever the Congress has been retreating, this withdrawal is being forced on it by the gathering momentum of this emotive political force which seeks to find fulfilment by establishing a regional identity through a regional political party. This process has taken long in its incubation, but its emergence has been startling and its success strikingly rapid. It is, however, still far from being completed.

If the current trends continue, the BKD should be able to challenge the Congress successfully next time for supremacy in Uttar Pradesh. In Maharashtra, it is not improbable that the mantle of victory may fall on the Shiv Sena as the successful local challenger to the Congress party, and it is not impossible that, given reasonable political wisdom and skill in the leaders of the Swatantra party in Gujarat and Rajasthan, the electorates in those states may be persuaded to seek their regional aspirations through that party. This, in our view, is what has hit the Congress and may hit it again at the roots of its political authority in the nation. In the midst of her many anxieties, both political and personal, the Prime Minister has commendably shown concern for national unity. May we submit to her that, in the context of the series of regional confrontations which is being forced on her party, it would survive only if it promptly recognises in that slogan the imperatives of its own title to existence?

No Dearth of Funds

THE DEVELOPMENTS in the current busy season have not taken place according to earlier expectations. Far from there being a squeeze in the money market as a result of an unexpected demand for funds from industry and trade, some banks have even a problem of utilising resources. This impression has gained ground because the increase in advances in the first three months of the busy season has been on a very small-scale as compared to the rise under this head in the corresponding period in 1967-68. The advances of member banks have risen by only Rs 79.12 crores to Rs 3,127.70 crores while the increase was as much as Rs 197.65 crores to Rs 2,795.82 crores previously. The slow growth in advances, however, has been mainly due to the sluggishness in the activities of the State Bank of India which has reported a decline in its advances by Rs 3.02 crores in the period under reference against a significant improvement of Rs 97.15 crores in the corresponding period in the preceding year. It must be pointed out, however, that the net decline in advances of the State Bank of India has been due to an adjustment carried out by this institution during the week ended January 17, when there was a big drop in this portfolio by Rs 47 crores. This operation was put through perhaps in connection with buffer stock purchases as otherwise there is no rational explanation for a drop in advances of a major bank during the busy season. The net decline allowing for this adjustment is not, therefore, so pronounced as it would appear at first sight.

There was, however, a rapid growth in advances of the State Bank of India in December 1967 and January last year perhaps due to the heavy inflow of imports and large procurement purchases. The question now asked is what will be the growth in advances in the next few weeks and whether any new trends have emerged which call for a reassessment of the requirements of the priority sectors. No ready answer can be given as the adjustment to the new situation arising out of the policy of social control has not been completed. Even otherwise it is incorrect to presume that the banking system is in a position to meet the needs of agriculture, small-scale industries and others without being obliged to secure assistance from the central banking institution in a big way. Even though many banks have been granting block loans to the state electricity boards and extending liberal credit for enabling the distribution of agricultural inputs in the interior areas the limits have not been utilised fully in many cases while the machinery also has to be geared up for meeting the needs of a large number of small borrowers. It will probably be necessary to co-ordinate the activities of the distributive trades, co-operative credit and consumer societies and the scheduled commercial banks for eliminating the gaps in credit availability in some directions. This process will necessarily take some time to be completed. But it can be expected that, with the gaining of experience, even during the current year there may be a marked increase in advances to the priority sectors.

Apart from the new demands that may arise on account of the new strategy adopted to liberalise credit facilities for agricultural sector and small entrepreneurs it is likely that a sustained revival in economic activity and the prospect of a higher level of maintenance imports in the coming months will lead to a larger demand for funds. Besides, in February-March last year advances of scheduled banks recorded a big rise, the additional demand in a two-month period being Rs 224 crores. It is reasonable to expect that a similar growth will take place in the current season also. Indeed, if in April and May it became necessary to purchase large quantities of foodgrains, the demand for credit may be even larger.

At the end of January it cannot be said that the scheduled commercial banks were flush of cash as advances at Rs 3,128 crores worked out to be 73.5 per cent of deposits while in the corresponding period in 1968 the ratio was only slightly higher at 73.8 per cent. It can only be said that, but for the amount locked up in advances against procured foodgrains the credit-deposit ratio would be even lower. Assuming that there has been an exaggeration in advances of the banking system on account of the special credit extended to the Food Corporation of India and the central and state governments by about Rs 100 crores, the credit-deposit ratio would still be fairly high at 71.1 per cent. The cushion left for effecting advances out of the resources of member banks is, therefore, only about Rs 150 crores, on the basis that a 75 per cent credit-deposit ratio is not unusual. It was even suggested at one stage that this ratio may go up to 80 per cent in the current busy season, if it became necessary, by utilising also the rediscounting facilities afforded by the Reserve Bank of India. This high ratio is not likely to be reached as the increase in advances between now and the end of June may not exceed Rs 350 crores even granting that there was a repetition of the happenings of last year. As there will also be a growth in deposits probably to the extent of Rs 200 crores, the borrowing from the central banking institution may not exceed Rs 200 crores. With a further rise in deposits and a contraction in advances in the ensuing busy season the credit-deposit ratio may again decline to normal levels. But, as in the last slack season, there may be unexpected trends if there was no outgo against procured foodgrains and there was also an unusual increase in farm credit and liberal loan to small-scale industries.

In any case the developments in the current year promise to be very interesting. The scheduled commercial banks may expect to establish a new record in respect of deposits with additions of over Rs 500 crores against Rs 442 crores for 1968. There may also be good use for funds and if there was a rationalisation of the methods of working, there may also be

an improvement in profitability. It would, however, be interesting to know whether with the activisation of the economy and the expansion of the activities of the banking system new trends emerge in respect of deposits as well as advances. The future of banking is bright and the present suggestion of "sluggishness" should not give rise to any misleading impression that there will be a problem of employing funds especially as the Governor of the Reserve Bank of India has suggested that there can be vigorous assistance to the retail trade and banks can even grant liberal medium and long-term loans to industries.

Financial Facilities

ONE OF the important issues discussed at the conference on economic outlook held in Calcutta last month was the inadequacy of financial facilities in the eastern region. Despite Calcutta's unique importance in the country's commerce and industry, the Government of India has not located the headquarters of even a single national financial institution in West Bengal. The Reserve Bank of India, the State Bank, the Life Insurance Corporation, the Industrial Finance Corporation, the Unit Trust, the Industrial Credit and Investment Corporation—all these have their headquarters outside West Bengal and outside the eastern region. This is sometimes interpreted as another indication of the central government's indifference to West Bengal. It may not perhaps be correct to assume that the headquarters of these institutions were deliberately located outside West Bengal in order to discriminate against that state. But it is a fact that the assistance granted by them to West Bengal has been much less than that given to some other states. For instance, the investment made by the Life Insurance Corporation at the end of March 1968 in West Bengal was 12.68 per cent as compared to 19.73 per cent in Maharashtra. The percentage of net financial assistance sanctioned by the Industrial Finance Corporation of India as on June 30, 1968, was 10.7 for West Bengal compared to 19.4 for Maharashtra and 14.5 per cent for Tamil Nadu.

At the Calcutta conference, Mr B. K. Dutt, Chairman of the United Bank of India, referred to two main institutional deficiencies in the eastern region—the absence of decision-making development banks, and the lack of marketing arrangements for financial assets. He said that the existence of branches of the Industrial Finance Corporation and the Life Insurance Corporation in Calcutta had not succeeded in creating confidence in the minds of the people. The Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India are also going to have branches in Calcutta shortly but Mr Dutt felt that mere branches would not suffice. "It is necessary", he emphasised, "that in the case of Industrial Credit and Investment Corporation and Industrial Development Bank, a complete set up, short of being almost independent, and closely identified with the development of the region, should be there, inspiring an element of confidence in the minds of the people. This will require the setting up of the branch organisation in a manner that, banning an unfavourable decision by the headquarters, no reference to the *de jure* head office will be necessary". Mr Dutt also made out a case for establishing regional unit trusts and for improving the arrangements for a wide dispersal of the corporate financial papers. He felt that though each state in the eastern region had a state financial corporation, there was still need for "a Calcutta-based development bank, built after the image of the Industrial Credit and Investment Corporation of India with large resources, confining its functional approach to eastern India". He thought that this would effectively contribute towards the economic development of this part of the country.

Mr H. T. Parekh, Vice-Chairman of the Industrial Credit and Investment Corporation of India, in his speech at the conference, also stressed the need for improving the financial facilities in Calcutta. He said: "Calcutta has not grown in financial services as its eminence in industry and trade justifies. There is need for the development of an investment trust in Calcutta, which would provide comprehensive financial services to industry. Such a trust should be willing to buy and sell shares to activate the stock exchange, and to provide finance to industry. In other words, there should be an active financial agency to meet the diverse needs of industry. My corporation has already taken a decision to set up an office in Calcutta. I am sure the banks here must be planning to diversify into merchant banking and other activities to provide financial services to industry. These steps, combined with an investment house, will help to establish comprehensive financial support to industry in the region. It is only such bold measures which can help to re-establish the pre-eminence of Calcutta as an industrial and trading centre".

This emphasis on better financial facilities for Calcutta comes at a time when there has been an all-round recognition of the imperative need to save at all costs the country's largest city from decay. The provision of larger finance, more or less on the lines suggested at the conference, will certainly help to speed up the industrial growth of the Greater Calcutta region as well as of eastern India. With the revival of the economy, the modernisation of Calcutta port and the development of the Haldia port, opportunities for the expansion of various industries, especially engineering, petrochemical and electronics will be considerable. Mr Parekh pointed out that the construction industry in Calcutta had greatly lagged behind. "Calcutta", he emphasised, "needs considerable new construction—housing, roads and other amenities which help to reduce the rigours of metropolitan living". There is now a greater awareness than ever before of Calcutta's unique role in the economic development of the eastern region.

So, if the union Finance Minister presents a con-

structive budget which will help stock markets to boom and the state governments concerned function with strength and stability, the eastern region can look forward to a period of vigorous growth. While the creation of new financial institutions and the provision of more facilities by the existing ones are, of course, important, it is equally urgent to modify tax policy so as to stimulate savings and investments. Dr Dutt referred to the abundance of funds with the banks. He said: "There does not seem to be any reason for any misgiving on account of shortage of funds. Money supply currently is adequate, deposit growth with banks in most regions is encouraging, institutional finance is in the process of liberalisation, and the priority list for finance is being enlarged". But the fact that, in spite of such conditions, very few new projects are being launched seems to show that the climate for investment is far from being congenial. Only a realistic budget will help to make 1969 truly a year of revival which is particularly necessary for the creation of more employment in this strategic part of the country.

Promptness Will Pay

THE INDIAN Industrial Delegation, which visited Malaysia last November, under the auspices of the Federation of Indian Chambers of Commerce and Industry, has submitted its report with commendable speed. Quickness was necessary because our success in seizing the investment opportunities in Malaysia will depend largely on the promptness with which our businessmen take the initiative. The hesitation on the part of our businessmen to invest in Malaysia has provoked some adverse comments both from the government and the private sector of that country. For example, the Chairman of the United Chambers of Commerce of Malaysia told the delegation: "Regardless of any historical ties, Malaysian industry will not wait for Indian technology and expertise. Other industrialised countries have a covetous design on the long-term prospects". The Government of India therefore should expedite action on the delegation's suggestions.

Some of the important recommendations of the delegation relate to the need for permitting cash remittances, negotiation of a double taxation (avoidance) agreement, formation of an export bank, and provision of credit at low cost. If the delegation had argued its case in greater detail, it would have been easier to persuade the government. For example, about the need for an export bank, the report says: "A separate institution dedicated to the task of providing export finance can strive continuously to match the facilities available to Indian exporters with those of their counterparts. The export bank can give appropriate investment support to the setting up of joint ventures". The case for an export bank would have been stronger if the delegation had pointed out clearly in what directions the existing facilities provided by the banks are inadequate. At the last meeting of the Board of Trade Dr B. N. Adarkar, Deputy Governor of the Reserve Bank of India, ruled out the need for an export bank. He said that the gaps in the export financing structure were being looked into and that the Industrial Development Bank, in co-operation with the commercial banks, would be able to improve further the existing financial facilities to exporters. The other proposals of the delegation include the need for providing additional export risk insurance for deferred payment arrangements, strengthening the Indian High Commission in Malaysia, arranging a wholly Indian exhibition, conclusion of a trade agreement, formation of an Indo-Malaysian business group and exchange of experience in diverse fields.

The delegation's report has indicated the fields where investment by our country is not possible or desirable and where there is considerable scope. For example, it will not be worthwhile for us to enter the manufacture of rubber tyres and tubes because this field is already saturated; carbon black because of the small size of the local demand; and biscuits and jams because of the "acute brand-consciousness" on the part of the consumer. But there are "sizable opportunities" in 17 industries ranging from steel foundry complex to high-quality crockery.

The report also deals with certain limitations of the Malaysian market such as the relatively small population (only 10 million); the non-availability of many local raw materials, high wages, high cost of electricity, inadequate network of railways (4400 miles), and the readiness of the Government of Malaysia to impose high import duties on the recommendations of the Tariff Advisory Board. But these limitations have not deterred other countries from investing in Malaysia on a large scale; and there is no reason why they should discourage us.

The report reveals that by the end of August 1968, over 134 pioneer companies had been established involving a foreign investment of more than M$231 million. Local investment in these projects amounted to an additional M$176 million. Besides, 91 companies with total investment of about M$108 million have been approved for pioneer status. There are also several multi-million dollar projects without direct government incentives or tax subsidies. It therefore seems surprising that so far only one Indian joint venture in Malaysia has gone into production though many schemes are now in various stages of progress.

The Government of India recently issued a statement indicating the guidelines for foreign investment. It also gave details of the schemes approved by the government for setting up joint ventures in various parts of the world. (This statement was published in *Eastern Economist* dated January 17.) But this document does not give a clear picture of the progress of joint ventures. It does not, for instance, explain why some schemes approved more than four or five years

ago have not yet started production and why some have been abandoned. For instance, a scheme was approved in Zambia in 1961 for re-refining used lubricants; two schemes were sanctioned in 1965 for a plastic processing plant and for a clock assembly plant in Ethiopia; a pencil factory and palm kernel crushing plant were approved in Nigeria in 1964 while a razor blade factory proposed in Ethiopia in 1963 was later dropped. The Federation of Indian Chambers of Commerce and Industry therefore would do well to undertake a study of the actual progress, or the lack of it, made by the various joint ventures of our businessmen in foreign countries, indicate broadly the benefits that have accrued, or are likely to accrue, to our country, and suggest what further measures are necessary to encourage investment abroad.

Productivity Parleys

MANY A promising discussion on productivity between top managements and workers' unions has ended up in charges and counter-charges. Not unoften, this has happened at the start itself, making it difficult to adopt useful techniques for improved performance even in fields where they have become all but imperative. A stage has been reached in our economic evolution when any further postponing of fruitful productivity efforts could only be at our peril. Recognising this, the Management Consultants' Association of India (MCAI) decided to call together both the parties to do some honest heart-searching and offer useful suggestions to enhance co-operative efforts towards the common goal of increased profitability for an enterprise. For this purpose, it organised, on January 31, a seminar in Bombay in which the viewpoints of the trade unions and top managements were frankly put forward by Mr Tulpule, President, Mill Mazdoor Sabha and Prof. Shukla (in the unavoidable absence of Mr Viren Shah, MP) of Mukand Iron and Steel Works Ltd, respectively. This was followed by a lively discussion on the topic by over twenty spokesmen of both top management and trade unions. Inaugurated by Mr M. R. Masani, MP, President of the MCAI, who made useful contribution to the discussion, the seminar served to bring out the possible constructive approaches to the question of productivity. If these come to be shared more widely—as they must—by all managements and trade unions in the country, "the new negotiating tool" (productivity bargaining) is sure to become the standard way in which managements and workers will strike new deals as in other countries, notably Britain, to their mutual benefit, as well as to the benefits of the economy of the country.

The ground has to be carefully prepared for productivity bargaining. Although it is also one other form of employer-employee negotiations, it involves the voluntary surrender by workers of certain restrictions on methods of work they have all along insisted on, in other words a change in attitude. Who is to bring about this change and how to go about it is the crux of the matter. Is it the duty of the trade unions, or the managements or the government? Who should take the lead? As one participant put it, to wait for somebody else to do this is to miss the bus. For it concerns everybody—managements, trade unions, governments and also the public. For, today's industrial organisations are no longer organisations for the benefit of any one sector of the population; they are social organisations whose fortunes concern everyone directly or remotely.

Granting this premise, and also granting that both managements and trade unions are anxious to usher in the needed change, are either of them equipped for the task? If the views of different speakers at the seminar in question are any indication, neither would appear to be so equipped, whatever the reason. Mr Tulpule appreciated the urgent need for creating productivity-consciousness among workers, but he also underscored the difficulties. In contrast to welfare measures which is an area of willing co-operation, he said, productivity presents an area of conflict. Again, he went on, unions may have sound ideas on productivity but they cannot implement them on their own. Although they cannot increase productivity, they can certainly help to do so. They can offer ideas, but the decision to implement them rests with managements and, according to Mr Tulpule, many managements are still not competent enough for the purpose. They have yet to establish rapport with their workers. His contention was that unions must first make managements become both anxious and competent to embark on productivity, but he confessed trade unions did not have either the expertise or the financial resources to do this or to train their own members. However, he said, where a minimum acceptability is established between management and labour, it should not be difficult to effect the changes required to enhance productivity. And he concluded by saying that assertiveness of unions in the area of conflict need not necessarily be construed as opposition to productivity

What was difficult to gulp down, however, was Mr Tulpule's unqualified opposition to automation as one of the means to increase productivity. He held the view, for instance, that it is an improper use of so highly sophisticated and costly a gadget as a computer to make them prepare and check premium notices and receipts or railway invoices and, he said, such criminal wastage of resources is unknown elsewhere. According to him, unless there is need for a vastly multiplied output, the use of computers is not justified. He was not prepared to accept that even in the context of the need to increase our exports to the highly competitive markets of the world, the use of computers to bring down costs and raise efficiency is called for. If even so scholarly and experienced a trade union leader takes this view, it seems unrealistic to expect a rational stand from white-collared workers

in the Life Insurance Corporation or banks, let alone industrial workers.

The viewpoint of managements on productivity was put forward by Mr Shukla who laid nearly all the emphasis on the attitude of trade unions as being responsible for obstructing productivity schemes. His contention was that the trade union movement in our country did not actually represent workmen and he also complained that external elements had a vested interest in preventing managements from establishing direct contact with workers and that, without such contact, managements could not possibly convince labour about the need for, or importance of, increased productivity. If productivity is to be raised, Mr Shukla said, unions must have faith in management and *vice versa*. The unions must learn to believe that, if management wants to raise productivity or to effect any change, it is not only in the interest of management but of everyone of the country at large. They must first develop the concept of collaboration and co-operation between management and workers, if increased productivity is to be achieved. In this connection, it is perhaps necessary to refer to Mr Tulpule's point that, for such collaboration or co-operation to become possible, managements also must be prepared to take workers into confidence in making their policy decisions and enforcing them. Instead what has been actually happening, according to him, as, for instance, in the case of experiments like joint councils, is merely to go through the motion of consultation mechanically and never wholeheartedly.

A pertinent point made by a number of speakers was the absence of the human touch in employer-employee relations. An independent trade unionist complained that many employers not only thought this could very well be left to their labour officers but went so far as to deem labour officers as their own employees and not as an agency specifically meant to reconcile differences between employers and employees. One of the participants rightly argued that transfer of leadership from external to internal leadership would not by itself lead to fruitful results, unless there were effective channels of communication between managements and unions. He also deplored the inability of most managements either to identify talent, particularly at the lower levels, or to reward it appropriately. Nor did he spare the unions which tended to put a premium on laziness, indiscipline and jealousy in the guise of social justice. Accordingly he pleaded for a change in orientation—from allegiance-orientation, arising from opinions based on selfish advantages, to fact-orientation, arising from techniques, tools and methodology. If both managements and unions were to confer on methodology, he believed, there would be firmer ground for accord.

An important point raised in the seminar was how to provide trained expertise to trade unions. As labour did not have the resources to engage consultants as could managements, the question was whether this should be done by government, managements or independent agencies. Mr Tulpule felt management could not provide these facilities, although he did not mind their financing an independent agency, say any university, to take up this responsibility. To him, it is the job of enlightened employers to ensure all help in training union functionaries to become better trade unionists by providing the required facilities.

The head of Britain's National Board for Prices and Incomes has described productivity bargaining as no more than a deal "in which workers agree to make a change, or a number of changes, in working practices that will lead......to more economical working; and, in return, the employer agrees to a higher level of pay or other benefits." If it has taken Britain over a decade —the first essay is believed to date back to 1958, when ESSO, the UK subsidiary of Standard Oil, tried to reduce, over a two-year period, the amount of overtime which had averaged 18 per cent of the total hours worked by the company's Fowley refinery near Southampton. For the concept of productivity bargaining to take concrete shape, no one can predict how long the process will take in this country. But it is interesting to note that the concept began to be seriously explored by British labour, which certainly does not love any legal inhibitions on its power to bargain, only when the Labour government there turned tough enough in enforcing its powers to delay wage increases as part of its strategy to counter the serious economic crisis in 1966 and thereafter.

Evasive Answers

THE PRESIDENT of the Federation of Electricity Undertakings of India recently called for a two-fold reappraisal by the Government of India, one in regard to continuity of the licensees' sector and another in regard to the incentive necessary for raising developmental capital by these undertakings. We are afraid the union Minister of Irrigation and Power, Dr K. L. Rao, who inaugurated the last annual general meeting of the federation, failed to provide reassuring reply on either of these. In regard to the latter, that is the federation's request for increasing the standard rate, all that Dr Rao did was to say that the Central Electricity Authority which the Government of India has to consult in the matter is seized of the matter. Evidently he was more concerned with maintaining the bureaucratic red tape routine than facing the live and urgent problem of raising developmental capital. Otherwise, he would not have failed to appreciate the fact that, with its "exponential" growth, the electricity supply industry needs continuous raising of finance, a task which the licensees, especially reputed managing agency houses in charge of electric undertakings in the country (for whom the government does not seem to have any use) have so far discharged ably, despite seve-

ral handicaps. In regard to the future of the licensees also, although he patted the three main private licensee undertakings—Tatas, Calcutta and Ahmedabad—on their backs by conceding that they "a.e doing creditable service", he went out of his way, if not all out, to quote statistics to establish that "the future of electrical development is almost entirely in the hands of public undertakings" and that "in the interest of assuring better service to the consumers, it has become necessary for some state electricity boards to enter the areas of supply of private licensees or to acquire inadequate private undertakings" The upshot of it all is that the licensees' sector has to carry on under the existing uncertainties indefinitely, which is, to say the least, most unfair to them.

What is intriguing is that, while Dr Rao fully endorsed what the president of the federation had said in his address regarding the more or less secure position vouchsafed for the licensees' sector in the Industrial Policy Resolution (both as formulated in April, 1948 and as modified in April, 1956) he had no qualms in justifying both acquisition under *ad hoc* legislation, as in Tamil Nadu and Andhra, and premature acquisition in some other states of licensee undertakings either on the score of "necessity" or in the name of "national objective". It all boils down to the familiar politician's game of "heads I win, tails you lose". And, in the final analysis, it would seem, the powers-that-be do not care very much either for "creditable service",—perhaps even this is no more than lip sympathy—or for their own categorical assurances. And they can afford it, it must be presumed, because of the insignificant fraction that private licensee undertakings constitute in the total installed capacity of the country, a point that Dr Rao chose to rub in.

According to Dr Rao, during 1967-68, there were 158 private licensee undertakings in the country, 109 of these being concentrated in four states—40 in Maharashtra, 27 in Gujarat, 24 in West Bengal and 18 in Uttar Pradesh. Again, only 14 out of these 158 undertakings are generating and distributing, 35 partly generating and partly distributing and the remaining 109 purely purchasing and distributing licensees, perhaps the weakest and the most vulnerable today. To look at the picture in another way, the share of the private utility undertakings in the total installed capacity of the country (13.1 million kW at the end of 1967-68) is 1.51 million kW or only 12.7 per cent. Their contribution to the total generation of electrical energy of approximately 41,000 million kWh is just 6,320 million kWh or about 15.4 per cent. And here, too, only three undertakings—Tatas, Calcutta and Ahmedabad— contributed the major share of 14.1 per cent. From the point of view of capital investment, out of the total net investment of about Rs 3,210 crores in the public electricity supply utilities, the share of all the private licensee undertakings was of the order of Rs 172 crores or 5.4 per cent, the share therein of the three undertakings in question alone being Rs 121 crores or 3.8 per cent. Save, therefore, for these three undertakings which "dominate the private sector and are doing creditable service", the Government of India does not seem to care much for the licensee undertakings which are small generally.

The Minister of Irrigation and Power is convinced that, "because the process of rapid power development in the country involves the preparation of a comprehensive national plan and achievement of economies of scale through adoption of large station-sizes of generating plants" (although the HEL has yet to manufacture a single turbine with a capacity for generating even 100 mW) and "because of these dictates of technological developments, it is difficult for very small electricity undertakings to contribute significantly to power development in the country." But he has still to establish that these small licensee undertakings have been afforded an opportunity to expand so as to be able to assume larger responsibilities. As he himself noted in his address, nearly 80 per cent of the total power produced in the USA is managed by the private sector. Moreover, how does this fit in with his proposal to establish a few rural electric co-operatives in order to extend electricity supply to the nooks and corners of the country in as short a time as possible? If such is the desideratum, prudence dictates that the authorities should try and harness fully the available services of the licensees in the rural sector by giving them all the encouragement and assistance possible. Whatever our faith in co-operatives, there are fields where mere faith in co-operation will not do. By the time new rural electric co-operatives are set up and trained to take on this responsible task of power generation and/or distribution, will not much precious time be lost? If initial financial burdens involved in extending long distribution lines to cater to sparse lands cannot be borne by small isolated licensees, as Dr Rao said, how will the newly set up rural electric co-operatives manage the problem? These, we submit, are aspects that the union Irrigation and Power Minister must consider carefully before falling in line with the fashion.

There is an important aspect of power development to which Dr Rao particularly referred, namely development of regional grids. Along with inter-state power links, this is indeed an essential step if the anomaly of a power-surplus state (such as Madhya Pradesh) imposing a power cut on a deficit neighbouring state (such as Maharashtra) with absolute abandon and unconcern is to end. It is a vital prerequisite to the much-talked of all-India grid so as to increase both efficiency and economy in generation and distribution. It is also recognised that "the ultimate purpose of it all is to make electricity available to the states in the most efficient and economic manner so that power can be extended at reasonable rates to our villages for promoting agricultural production and small-scale industrial development." But who is impeding it—the states themselves or the small isolated licensees?

Not Omitting the Jokers

THE CHANGES in portfolios announced by the Prime Minister in the early hours of Friday last week have been described in some quarters as "sweeping". The description fits in the sense that Mrs Gandhi has swept Mr Dinesh Singh into the Ministry of External Affairs, while sweeping under the carpet some of the more serious and urgent problems of better government.

This is not to deny all merit to the various decisions she has taken in this connection. It is altogether sensible that she has unburdened herself of the ministerial charge of External Affairs. While it is not exactly the case that triumph and glory await this country on the world stage, developments abroad, particularly in Pakistan, have certainly made it necessary for the government to undertake a more purposive planning of its external relations. There is no doubt at all that this has made it all the more desirable that the government should have a full-time Minister for External Affairs.

Mrs Gandhi's choice of Mr Dinesh Singh for this post was perhaps preordained. It should not, for this reason, be decried. On the contrary, it is eminently reasonable that the Prime Minister should have a Minister for External Affairs in whom she has complete confidence. For obvious reasons, here is an area of government where the Prime Minister's thinking should be fully free to impinge on both administration and policy-making. Among his other advantages, Mr Dinesh Singh seems to have the qualification for playing Michael Stewart to Mrs Gandhi's Harold Wilson. This apart, as Minister for Commerce, he certainly showed the capacity to acquire knowledge of complex and unfamiliar situations and develop responsible and flexible attitudes in coping with them. There is no reason why Mr Dinesh Singh should not continue to gain wisdom and experience to the benefit of the government and the country in the important ministry to which he has now moved.

There is only one significant promotion in the new scheme of things. This is Mr B. R. Bhagat's elevation to Cabinet rank. This is an expected as well as a welcome decision of the Prime Minister's. Perhaps she could have been a little more bold and imaginative here and extended similar encouragement to one or two more promising Ministers of State. The younger members of the Council of Ministers represent an asset which is well worth investing in adventurously. There will be widespread relief at the departure of Dr Triguna Sen from the Ministry of Education. Whether this will be equalled by such satisfaction as there may be with his reincarnation as Minister for Petrochemicals, Mines and Metals is rather doubtful. It may be said at once that his appointment does not inspire confidence. Dr Sen had shown himself to be a weak and confused minister in the Ministry of Education. He is now assuming responsibilities which could well present a stormy challenge. Major decisions in respect of oil and fertilizer policies have been held up by political resistances from within the cabinet and outside. It is not immediately obvious that Dr Sen is the minister to cope with them. Dr Sen was first included in the cabinet only for the reason that the Prime Minister believed that with his particular background he might make a good Education Minister. This assumption has been belied and a more resolute Prime Minister than Mrs Gandhi might perhaps not have seen any reason for retaining him. Dr Sen's successor, Dr V. K. R. V. Rao, also has a record as an educationist to boast of. We hope he will be more successful or more fortunate than Dr Sen. Dr Rao is an economist besides being an educationist and since Mrs Gandhi, for reasons best known to herself, has not found it possible to utilise his services in an economic ministry of major importance, her selection of him as the new Minister for Education is perhaps the best possible decision under the circumstances.

It may perhaps be claimed for Mr K. K. Shah that he was less of a failure in the Ministry of Information and Broadcasting than Dr Triguna Sen was in the Ministry of Education. All the same his performance was not by any means distinguished and there is reason to suspect that Mr Shah's interfering ways, which were often mindless and usually fruitless, did nothing to improve the standards of efficiency in a ministry where those standards had never been very high. The question now is whether what is a gain for the Information and Broadcasting Ministry will prove to be a gain also for the Ministry of Health and Family Planning, Works, Housing and Urban Development, which is the description of the ponderous new ministry to which Mr Shah has been shifted. There is no surprise in the departure of Mr C. M. Poonacha from the Ministry of Railways. His working relations with the Railway Board were not all that they might have been. Since it is the Railway Board which, when all is said and done, does the actual running of the railways, it seems to be to the advantage of all concerned, including Mr Poonacha, that another portfolio has been found for him.

This seems to complete the list of "pluses", mostly modest, of Mrs Gandhi's exercise in giving a new look to the government. The "minuses" are easily identified. We had referred to the obvious expendability of Dr Triguna Sen. There is much else in the cabinet that is deadwood too. The fact that Mrs Gandhi has not been willing or able to drop any of the superannuated old-timers or the weak and confused men in her Council of Ministers certainly goes against her in any claim that she may care to make to be concerned with the competence or even the prestige of the government.

Her present team has been in office for two years now and this is time enough for her to be aware of the weaknesses in its parts. It is a pity that the Prime Minister has chosen the easy way out of letting sleeping dogs lie.

This reluctance to take legitimate risks is also reflected in her failure to infuse some much-needed new blood into the government. The argument that there are not too many persons in the Congress parliamentary party who are obviously qualified to make any considerable contribution to the quality of government as ministers is not enough as an explanation. Even if this is assumed to be true, there is certainly nothing to prevent the Prime Minister from seeking for needed talents from outside the ranks of the party. Even in the heyday of its glory, the Congress party found it useful to supplement its own resources of skilled manpower by inducting men from outside into ministerial positions in the central government. Even now there are in the cabinet at least two who are not truly of the party faithful. The fact that these experiments have not always been successful is no justification for Mrs Gandhi not making another attempt when there is such a clear necessity for the Council of Ministers to be strengthened by the induction of talents from wherever they could be enlisted.

It does not redound to the credit of the ruling party or the Prime Minister that the question of a possible new entrant has been and is being discussed wholly in terms of Mr Kamaraj's political future. The issue thus narrowly viewed can be of interest only to the managers and manoeuvrers in the Congress party. A wider public, more seriously interested in the efficiency of government, would surely have had greater respect for the ruling party had the Prime Minister been able to look at the issue in its larger context. Most of the major economic ministries of the government have been suffering from a lack of constructive and dynamic leadership from their ministers. It is a pity that Mrs Gandhi's reshuffling of her pack of cards has not done much to improve matters in this respect. Some negative and obstructive men still remain in positions from which they have already done much harm to the economy of the country and great damage to the progress of its industrialisation. There is therefore no reason to believe that the positive forces in the government have now been strengthened at the expense of the negative elements.

Sources of Public Finance

S. NARAYANASWAMY

CORPORATE TAXATION in India is among the most discussed of topics, even as the Taj Mahal is among the most photographed of historic edifices. The taxation of company profits is also a theme on which the corporate managerial community on the one side and officials of the union Finance Ministry on the other, have pleaded strenuously for dispassionate and objective approaches and a little more strenuously proclaimed that predilections and prejudices have obscured clarity of vision and fairness of assessment on the other side of the counter. In this background, for a person belonging to either side to make a claim that he is presenting an objective viewpoint, would be an invitation to be treated as a Pickwickian character. Any person known to sponsor unambiguous views on the subject laying claim to a judicial viewpoint would be only drawing liberally on the still unbridged credibility gap of a well-meaning public. Lack of candour in identifying oneself as sponsoring a particular point of view leads to avoidable subsequent disenchantment with personalities and the principles they enunciate. It seems, therefore, important to say that what follows is based on the talker's personal knowledge of and involvement in corporate affairs over a period.

No sector of citizenry has a more vital stake in the country's exchequer being filled meaningfully with revenue than the company sector, for only large revenues would propel the country along the highway of economic development. The corporate sector has indeed a direct interest in the increased purchasing power of the people, for only through such increase can a widening of the area of effective demand for goods and services be secured, in order to help industries to market what they manufacture by way of goods or what they provide by way of services.

Well-Organised Sector

There is no sector of economic activity that is better organized than the corporate sector, no sector which has so little motivation for tax evasion; no sector from which it is more easy to collect taxes without delay. Corporations, which are gainfully occupied, constitute as it were a compact arena of convenient and large tax collection. By way of comparison of the input of departmental effort and output of revenue let us take a public company that contributes Rs 10 lakhs to central revenue as corporate levy. A thousand personal tax returns will perhaps bring the same revenue, with each of a large number of them taking as much time and sometimes more time than the aforesaid company. This is because the individual assessee tries to salvage as much as he can out of his gross income, from what he seems to regard as the crocodile jaws of central taxation, through contentions, stay-orders and appeals in diverse stages of assessment proceedings. This, in large measure, accounts for the temptation on the part of the our tax-gatherers to turn their suction pumps on to a convenient reservoir of taxable income to realize the required revenue resources, to meet the spiralling needs of a budget that has not only to meet current civil and military expenditure but also the financial needs of capital projects under development plans.

Before India attained Independence, the corporation tax was a super impost, on a rate of income-tax which was the maximum leviable on individuals in that form. Individuals paid separate super-tax on the higher brackets of income. Income-tax revenue under the financial arrangements with the states, was a pool of divisible revenue—the share under such division being varied or adjusted periodically by a Finance Commission appointed by the centre. Today, through a succession of Finance Acts, the Ministry of Finance has evolved a consolidated single levy on corporations, no part of which is shared by states. This consolidated levy has, with a pertinacity worthy of a nobler cause, been upgraded till it reached its present level of 55 per cent on the taxable income of a corporation. This, by itself, makes the central government the major partner in prosperity of corporate enterprise in the country. Over and above this levy, companies that make attractive profits in relation to their capital base, pay an additional tax named surtax—the incidence of which varies with the ratio, which paid-up capital and free reserves on one side, bear to profits made on the other. This levy has been weighing oppressively on private companies, which normally have a smaller paid-up capital than public companies. Besides this, such public companies as make good profits on a small capital attract surtax. The surtax is a somewhat bare-faced illustration of a penalty being imposed on efficient or prudent husbanding of corporate resources. The surtax introduces the element of progression in company taxation through a side-door, which an overwhelming number of tax pundits hold to be undesirable. Particularly, in countries where the corporate sector has not expanded as it should, such a levy is bound to act as a deterrent to capital formation. Indeed, the high rate of company tax and the surtax have resulted in a number of private companies being converted into partnerships in the last few years to avoid the burdens of steep taxation. The cumulative effect of a surtax sitting like a buffoon's second cap on top of an already burdensome corporate levy, has been to siphon away a sizable part of corporate profits to the exchequer and leave companies little money to transfer to reserves or to distributable profits. Indeed, the tax suction of corporate resources has the even more debilitating effect of leaving companies in a state of financial squeeze and alarming illiquidity. This, in turn, forces the corporate sector further into the arms of the banking system for larger overdraft, cash credit and other facilities, all of which swell the burden of interest charges.

This is the text of the talk broadcast by Mr Narayanaswamy from All India Radio, Madras, on February 12.

Congealed Profits

The layman may well ask: where are the profits that are retained in the form of depreciation provisions and in the form of profits retained in sundry other ways? Profits are unfortunately not always represented by liquid funds. Indeed, they lie congealed in the form of raw material, works in progress, finished goods in warehouses not lifted by customers; and by goods delivered to customers and not paid for. With the growth of institutional customers such as government departments, the Railway Board and state electricity boards, industries are finding it less easy to cash in on a finished article and are obliged to wait for these very important customers to pay as and when it suits their financial exigencies.

The causes of corporate illiquidity are numerous, but nothing contributes to this illiquidity in a more substantive measure than tax payments. The squeeze is all the greater when taxes have to be paid on profits computed rather than on profits realized—as in the case of goods delivered on promise of a distant dated settlement of bills. Latterly, illiquidity has mainly arisen from large tax outgoings. The consequent increase in borrowed funds has made serious inroads into profitability of industrial companies and brought nightmares to many a member of the managerial community.

Large annual bonuses paid to workers and staff under

the Bonus Act have added an edge to the liquidity problem of companies and brought some to the verge of exasperation. Cash outgoings, based on partially unrealized profits, culminate in chronic financial tight-rope-walking for the most prudent of managements—what, according to some bankers, is a way of living dangerously.

Profits ploughed back into reserves constitute the basis of internal capital formation. But, in the context of current levels of corporate taxation, plough-back possibilities have shrunk disconcertingly and even reasonable dividends are rendered impossible except when companies have windfall years such as sugar companies enjoyed in 1967/68. The element of internal capital formation is vital for the future of corporate development, as companies must expand, modernize or diversify if they are to reduce costs, if they are not to become obsolete, and if they desire to stay in business. Of this vitally nourishing element, the corporate sector is being presently starved.

A Poignant Tale

Capital formation in India is a poignant tale of thrown away opportunities. The systematic stepping-up of personal and corporate taxes to meet the short-term exigencies of mounting governmental expenditure has had the twin effects of crippling dividends distributed and shrinking ploughed-back funds while at the personal level, the steeply increased rates in the higher brackets of income and wealth have siphoned away a major part of investible savings of the income-earning community. High cost of living has absorbed the residue of personal incomes and left little to provide against a rainy day.

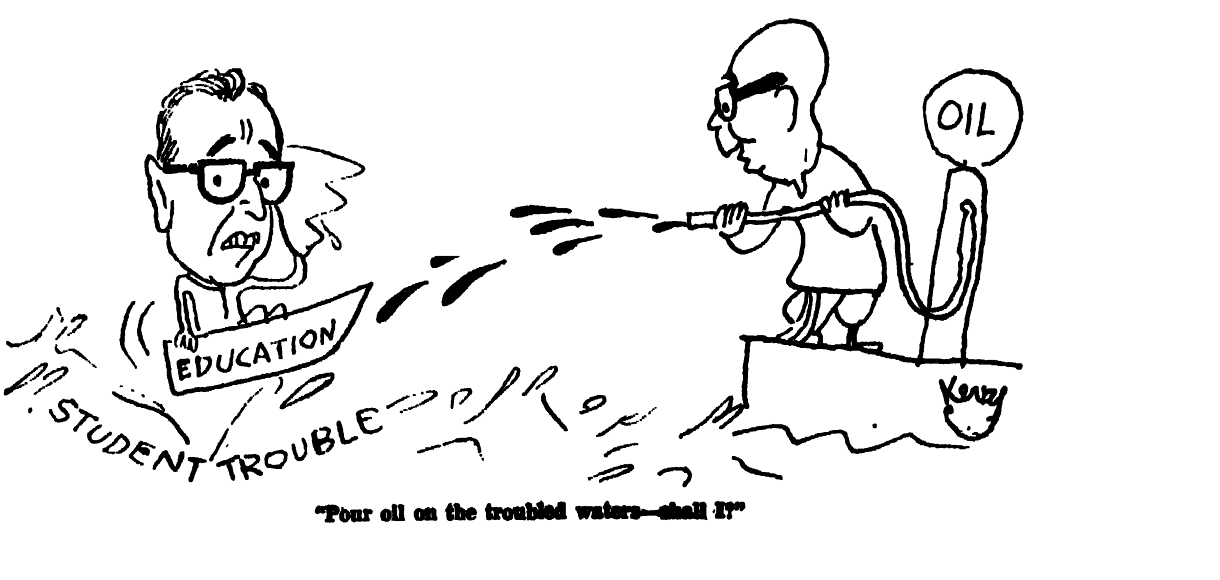
In 20 years of Independence, we have had kaleidoscopic shifts in corporate and personal tax patterns, apart from spiralling in slabs of taxes. This has made the investor in shares of companies feel that this is a vulnerable sector to plank his savings on. The seasoned investor in equities has become acutely conscious of what he has had to put up with —first, interruption, shrinkage or continued loss of dividend income, which in times of inflationary living costs, becomes "a sorrow's crown of sorrow"; and secondly, depreciation in the capital value of his investment. His disenchantment with stock exchange investment is severe and contrasts painfully with his experience in investments made on urban real estate or agricultural land; in gold or precious stones in response to the importunities of his better-half—who can well claim to be his better seven-eighth by reason of her proved better judgment in the choice of even a non-yielding store of value for her husband's hard-earned savings—that has compensatory appreciation in money value.

The equity share has been held by our classical economists to be a dependable hedge against inflation. Thanks to fiscal imposts and melodramatic shifts in policy, the equity share has not only proved itself a poor hedge, but has suffered intrinsic erosion in terms of even our depreciated currency. It is not as if the afflictions of the Indian capital market have not been studied in depth. The National Council of Applied Economic Research has published its objective, though outspoken findings, on the reasons for the capital market being in such doleful shape—and why it has to derive sustenance from the many oxygen cylinders namely, the financing institutions that underwrite capital and lend money long term. But alas! there has been no effort made to act on suggestions for reviving the capital market. Meantime, we continue to be treated to ponderous essays and high-level seminars on capital formation which accord with our escapist habit of talking a subject out. The further fact of the matter is that those on whom the duty is cast to initiate remedial measures seem to feel that the revenue sacrifices called for are far-reaching. They are further convinced that the tax abatements and allied measures that would revive India's capital market, constitute too large-sized a camel to pass the needle's eye of parliamentary approval. The imponderables are numerous. The sacrifices called for would dislocate government's programmes: and the political acceptability of the suggested remedies is an ominous question mark. Why launch our feeble craft of remedial measures on such turbulent seas, feel our policy-makers.

Distorted Image

Well: the corporate sector produces goods and services. It sustains government through direct and indirect tax revenue apart from taxes paid by its employees. It has substituted imports. It creates organized employment and through such employment and wage distribution, creates effective demand for things produced and elevates living standards. To consider these instruments of production as citadels of vested interest, merely because they create here and there odd pockets of individual affluence—is just to see their image through the circus clown's distortion mirror.

To swear by five-year plans and at the same time refuse to look at the ailments of India's capital market would amount to stultification of development effort. Happily, the fog of misunderstanding has been clearing rapidly and a clearer perception of the basic functions of industrial entrepreneurship is emerging. A vigorous sense of direction is being given to the complex task of securing people's participation in economic build-up through relaxation of control measures recently announced, which is psychologically of great value. The fact that an occasional vainglorious business tycoon indulged in the euphoria of ostentatious living, in disregard



"Pour oil on the troubled waters—shall I?"

of the feelings of his less fortunate neighbours, has strangely enough created psychological barriers to enlarging our instruments of production—which need to be surmounted without delay. There is heartening evidence that economic statesmanship in the country is re-asserting itself and there is clearer appreciation of the importance of not throwing the baby with the bath-water, in carrying out the noble assignment of securing for the maximum number the maximum of happiness.

West Bengal: The United Front Is Back

A Special Correspondent

THE RESOUNDING victory of the United Front (UF) in the mid-term election in West Bengal is regarded by many as an expression of the electorate's strong disapproval of the Governor's action in dismissing Mr Ajoy Mukherjee's ministry in November 1967. How far is this interpretation correct? Was the electorate really enamoured of the UF government's performance? Impartial observers agree that this ministry did not have a single constructive achievement to its credit during its nine-month rule. Not only did it not solve—or made a serious attempt to solve—any of the state's major problems but it created new difficulties for the people by deliberately inciting hostility between workers and employers and between landlords and peasants. What was worse, the ministers openly indulged in gross indiscipline. They defied the Chief Minister and publicly accused one another of intrigue and even treachery. It was quite obvious to everyone that such a ministry would be hardly able to function with any reasonable degree of efficiency. It is also significant that when the Governor dismissed the ministry, there was hardly any protest by the public in Calcutta or other parts of West Bengal. Mr Ajoy Mukherjee had warned that there would be a blood-bath if his ministry was sacked. But nothing of that kind took place. During the Governor's regime also, the people conducted themselves with commendable dignity and restraint and offered full co-operation to the administration. There was no indication whatever to show that the people were really longing to get the United Front back in office. It is therefore difficult to agree with the view that by electing the UF by a massive majority the electorate has recorded its resentment against the Governor's action.

Superb Organisation

The UF victory was mainly due to the superb organisation of the communists. They took the mid-term election seriously. They campaigned vigorously and systematically and personally approached all classes of voters especially in cities and villages. Both leaders and the rank and file of the Communist Party conducted themselves with devotion, discipline and diligence. In contrast, the Congress was not only too complacent but was unable to present a united stand. Many of its top leaders are reported to have secretly worked against one another. Moreover, for the past two decades, the Congress in West Bengal had seldom identified itself closely with the interests of the middle classes. The teachers, lawyers and employees in banks and commercial firms were all practically neglected by the Congress while the communists had valiantly and consistently championed their cause.

The Congress leaders such as Mr Chavan and Mr Morarji Desai, during their election tour of West Bengal, constantly harped on the anti-national character of the communists, especially the Marxists. Mr Desai in particular again and again warned the people not to vote for the Marxist communists because of their love for and loyalty towards Red China. In fact, Mr Ajoy Mukherjee himself had said, in his historic statement on October 15, 1967, "A wing of a political party is openly inviting China to help the party in bringing about an armed revolution starting in West Bengal. Such a tendency should be nipped in the bud". But so far the central government has done nothing to curb these traitorous trends. If Mr Chavan and Mr Desai really believed that the Marxist communists were in collusion with their Chinese comrades, why did they allow their party to contest the mid-term election? Why did the centre mislead the people of West Bengal by permitting an anti-national party to set up candidates and fight the election? Mr Chavan told the Lok Sabha in the last session that they must fight the communists politically. But West Bengal has shown that this strategy will simply not work. The position today is that in West Bengal the centre cannot afford to fight the communists either politically or administratively or in any other manner. The communists seem to have firmly entrenched themselves not merely in Writers' Building but in the minds and hearts of millions of people both in the urban and rural areas of West Bengal.

Strategic Region

By consolidating their position in West Bengal, the communists have got effective control over one of the most vital and strategic regions of the country. The importance of West Bengal in India's defence and development is well known. The Calcutta Metropolitan District has the greatest single concentration of productive capacity and accounts for about 15 per cent of all manufactures in India. It handles nearly 30 per cent of India's bank clearances. About 45 per cent of the country's exports and 25 per cent of imports pass through Calcutta port. The bulk of the productive capital of about Rs 1,220 crores in industrial investment in West Bengal is located in the Calcutta Metropolitan District. In 1966 West Bengal's share in India's industrial production was as follows (in percentage): coal 28.0, pig iron 34.4, finished steel 29.5, vanaspati 11.8, tea 23.2, sewing machines 65.6, storage batteries 51.0, electric fans 74.9, radio receivers 20.4, sulphuric acid 11.4, caustic soda 6.8, paints 53, soap 29.5, paper 20.5, wagons 59.3, motor vehicles 58.7 and bicycles 19. The communists therefore have every reason to feel gratified at their victory which has given them control over such a productive and prosperous region.

The Congress deserves sympathy for its plight. But, at the same time, it must be said that the Congress leaders themselves had brought about their own downfall by their inactivity and indifference. Somehow, they came to believe that they had a divine right to rule, which made them complacent and corrupt to some extent. It was Bengal that took the initiative in sponsoring the Indian National Congress in 1885. It was Bengal that helped to create a strong wave of nationalism in the country first through the anti-partition movement of 1905 and later through the non-co-operation movements started by Gandhiji. It is therefore sad to note that in this very state, the Congress should receive a crushing blow from which it may perhaps never recover. The Congress in West Bengal has not merely been defeated but, more unfortunate, it has been demoralised. It is not the people of West Bengal who let down the Congress. It is the Congress that has let down the people of West Bengal. If only Congressmen had conducted themselves truly as tribunes of the people, it would have been difficult or even impossible for the communists to overthrow them.

The UF government is assuming office when conditions, both political and economic, are quite favourable for it. From the political point of view, its main opponents have been routed and the centre too is likely to be more sympathetic to the UF than it was before. The economic situation in the country has also shown signs of steady recovery. Industrial relations have greatly improved and workers are no longer in their militant mood. So if the UF and the communists in particular conduct themselves as responsible ministers, they can certainly do a great deal of good to the people.

Pulses for Protein

L. L. SARIN

IN OUR country, with a predominantly vegetarian population, pulses are an important source of protein for a large sector of the population. A breakthrough in the production of pulses is, therefore, as important as in cereals. Grown over an area of 23 million hectares, under a wide variety, all the year round, the annual production of pulses is about 12 million tonnes, with a woefully low average yield of about 540 kg per hectare. Gram and pigeon-pea (tur or arhar), the most important pulses, constitute about 64 per cent of the country's total production. Next in importance are urad, moong, lentil, moth, kulthi and peas. Of particular value as green fodder or vegetables are berseem, cluster-bean (jowar), cowpea, soyabean and several other beans.

The production of pulses has varied from eight million tonnes to 12 million tonnes during the last 18 years as shown in the table below.

Pulses are mostly grown in the states of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Maharashtra, Bihar, Mysore and Rajasthan. Uttar Pradesh alone produces about 33 per cent of the total production of pulses in the country. The gram crop constitutes about 50 per cent of the total output followed by tur or arhar (14 per cent). The other pulses which occupy comparatively small acreage are nevertheless important because of their place in crop rotation.

Production Doubled

The production of gram has increased from 3.667 million tonnes to about 6.040 million tonnes during the period 1949-50 to 1967-68. The per hectare production of gram varies from 542 kg in Madhya Pradesh to 1042 kg in Punjab and Haryana. For the country as a whole, the yield per hectare has increased from 499 kg in 1949-50 to 733 kg in 1967-68. Linear growth rates of production, area and productivity of gram during 1952-53 to 1964-65 as worked out by the Directorate of Economics and Statistics show that Uttar Pradesh, accounting for nearly one-third of the total production of gram in the country, had a negative growth rate of production during the period under review. This was due to the setback—caused by adverse weather conditions—in the production of the crop during the first three years of the third Plan. Bihar too had a negative growth rate of production. In spite of the setback in the production of crop due to unfavourable weather conditions, Rajasthan had a high rate of growth of production but mainly due to a substantial increase in the area under the crop. Punjab and Madhya Pradesh, the other gram producing states, showed low rates of gram production.

The production of tur or arhar increased from 1.016 million tonnes to 1.735 million tonnes during the last 18 years. The all-India average yield per hectare of tur went up from 452 kg in 1949-50 to 871 kg in 1960-61 but fell down to 646 kg in 1967-68. It varies from 354 kg in Mysore to 946 kg in Uttar Pradesh.

Of particular interest is the fact that the area under pulses during the last six to seven years is progressively on the decline. With the development of irrigation facilities, additional supply of fertilisers and identification of high-yielding varieties and hybrids of cereals and millet crops, a further decline in area cannot be ruled out. Among the factors limiting pulse production, the most important perhaps is lack of short-duration, high-yielding varieties possessing resistance to disease and insect pest. Secondly, pulses are grown mostly as rainfed crops, thus depending upon the vagaries of the monsoon. Thirdly, the cultivation of pulses has not so far been undertaken on scientific and systematic lines under proper management practices.

Rich in Vitamins

Pulses have a significant relevance to the pattern of food consumption in our country. Besides their protein content, some varieties of pulses are also rich in vitamins and calcium. These crops can help the cereals in growth and nitrogen supply when the two crops are raised in association, for, the pulses and other leguminous crops fix nitrogen in the soil from the atmosphere through symbiotic bacteria. An important source of cattle fodder, they are also used as a green manuring crop for increasing food production. And, in some cases, they have a recognized medicinal value. An all-out effort is, therefore, needed for increasing the production of pulses. Experience in some areas of Uttar Pradesh, Punjab and Madhya Pradesh has shown that yield rates can be improved through further trials and experiments.

The data on household consumer expenditure collected through the National Sample Surveys give some estimates of per capita consumption of pulses in rural and urban areas of different states. In rural areas, expenditure on pulses in a family constitutes 6.4 per cent of the total expenditure on all food items. For the urban areas excluding big cities of Bombay, Calcutta, Delhi and Madras, it is 5.1 per cent and for big cities it is on an average 3.8 per cent. Within the country the variation in expenditure in rural areas is from 1.2 per cent in Kerala to 9.5 per cent in UP. In urban areas, the expenditure on the consumption of pulses varies from 2.8 per cent in Jammu & Kashmir to 6.7 per cent in Gujarat. Although pulses are consumed throughout the country, they form an important constituent in the diet of the people in the states of Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Mysore, Gujarat and Tamil Nadu.

Since pulses are cultivated in a few states, mostly in the northern region, but are consumed in all states, and to

AREA, PRODUCTION & YIELD OF PULSES PER HECTARE (1949-50—1967-68)

Area in '000 hectares
production in '000 tonnes
yield in kg/hectare

Year	Gram			Tur or arhar			Total pulses		
	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield
1949-50	8274	3726	449	2250	1016	452	20166	8159	404
1955-56	9779	5418	553	2286	1862	813	23216	11046	476
1960-61	9406	6250	672	2390	2066	871	23204	12704	545
1965-66	7993	4206	525	2483	1736	699	22080	9800	444
1966-67	8003	3622	453	2521	1130	448	22121	8347	378
1967-68	8236	6042	733	2681	1735	646	22666	12236	540

a significant level in the southern region, large scale inter-state movement of pulses by rail or road is involved. It is, therefore, essential that a programme, on high priority basis, for introduction of important varieties of pulses to cover as large an area as possible is taken up in the states of Tamil Nadu, Mysore, Gujarat and Bihar, where gaps between the consumption and production of pulses are large and where the present consumption pattern of pulses is not likely to undergo any major change. It is heartening to note that the fourth Plan as now drawn up by the Government of Tamil Nadu embodies for the first time a systematic programme of action for augmentation of production of pulses within the state. The total requirements of pulses in Tamil Nadu alone, by the end of the fourth Plan, are estimated at 680,000 tonnes, against which current level of production is only 100,000 tonnes.

The data collected through these surveys also support the expectations that at lower expenditure level, of the total allocation for food, households spend lower proportion on milk and other food items and more on cereals and pulses. Thus pulses are an important source of protein supply to the lower and middle-income strata of the population.

The total requirement of pulses for human consumption at the rate of 4 oz per day per head works out to 16.5 million tonnes by 1973-74. About 1.3 million tonnes are estimated seed requirements. The anticipated export demand is placed at 0.2 million tonnes. Thus the demand of pulses on these accounts could be placed at about 18 million tonnes.

Livestock Feed

Gram is one of the main concentrates used for feeding of livestock. At present, it is estimated that about one-tenth of the total production of gram is available for livestock feeding. In recent years, a change in the food habits of the people has been noted with a distinct trend towards consumption of finer types of cereals, such as wheat and rice. This gives some hope that in future years, large quantities of gram would be available for livestock feeding. At present, there is considerable gap between the requirements (i.e. six million tonnes) and availability (i.e. 0.6 million tonnes) of gram.

One of the important schemes currently in operation and proposed to be expanded during the fourth Plan relates to an all-India co-ordinated scheme for intensification of research for the improvement of pulses. Co-ordination of existing breeding programme and initiation of new programmes on several of the principally grown grain legume species, along with collection and assembly of germ plasma of several species of grain legumes forms a part of this scheme.' A pilot project for the production and distribution of Rhizobium cultures on a mass scale is also envisaged, the main objective being to develop efficient strains of cultures for pea, berseem, lucerne, soyabean, groundnut, gram and moong in adequate amounts with a view to conducting co-ordinated trials with selected strains at different research centres all over the country. It is also visualized to produce in pilot plants the most efficient strains on a mass scale to meet the increasing demand of such cultures to inoculate leguminous crops. These measures would go a long way in increasing the productivity of pulses in the country.

For irrigated areas particularly where controlled irrigation is available all the year round, after selecting the two most efficient crops of respective climatic and soil region, the third short duration crops such as moong, cowpeas, cheena can be fitted in either as zaid rabi (middle of April till the end of June) or zaid kharif (beginning of October till the end of December) or both. Such crops as urad, moong, cowpea etc., can be inter-cropped in sugarcane and cotton crops during the summer in many parts of the northern region. In Tarai areas of Uttar Pradesh, where sugarcane is planted in autumn, gram can be grown in between the rows of sugarcane without in any way affecting the yield of sugarcane.

The prospects of large-scale increase in the production of pulses are, however, limited in the absence of short duration, high-yielding, disease-resistant varieties. Efforts to maximize the production of pulses have thus to be combined with research activities to evolve high-yielding varieties and quick-maturing strains. In fact, any breakthrough in pulses research will bring a major change in cropping pattern in the country as they are ideally suited for being fitted in any intensive grain crop rotation. So far, pulses have not received attention from the scientists. An intensive research on the breeding and agronomy of such high-yielding varieties of pulses as gram, urad, moong, moth, arhar and lentil would be very rewarding. Some beginning has been made in this regard at the Indian Agricultural Research Institute, New Delhi, and at other research centres in the states. But much remains to be done. Perhaps the universities and research institutes in the regions could pick up one or two of the important pulses of the region for intensive research.

Another problem which needs immediate attention in this regard is the development of varieties (i) responsive to high fertility conditions; (ii) adapted to low soil moisture condition; and (iii) resistant to wilt and pod borer in the case of gram and pigeon-pea and resistant to virus diseases in the case of moong, urad and cowpea

Banning Strikes by Government Employees

Our Special Correspondent

IT IS understood that the central government proposes to bring in the current session of Parliament a comprehensive bill to put a ban on strikes by government employees. While the Essential Services Ordinance and the Act which replaced it gave the government enabling powers to prohibit strikes in essential government services and the Act is to be in force for three years, the proposed legislation would place a permanent ban on strikes in central government offices. The bill would also provide for machinery, more or less on the lines of the existing joint consultation machinery, and for an arbitration board to which matters would be referred if there is no agreement in the joint machinery. The government would retain the right not to refer to the arbitration board matters of policy (such as the refusal by the government to refer to arbitration the demand for a need-based wage), but in that case the government would have to report to Parliament why it does not propose to refer an issue to the arbitration board and any direction which Parliament gives would have to be carried out by the government.

It will be recalled that when the Essential Services Maintenance Bill came up before Parliament there was much opposition. The bill was referred to by some of the opposition members as arbitrary, totalitarian, the law of the jungle etc. It is not improbable that when the bill referred to above comes up there would be similar opposition.

It is proposed here to refer to some of the issues raised by the question, on which there is still much misunderstanding. As was observed by one of the members in the debate in the Rajya Sabha on the Essential Services Maintenance Bill, the right to work was fundamental, not the right to strike. The Constitution lays down a large number of fundamental rights but the right to strike is not one of them. The law of the industrialised countries does not formally recognise any right to strike; there are restrictions on strikes particularly in regard to government servants. In the UK, for example, no law confers the right to strike, but certain strikes are declared by law to be illegal. So far as civil servants are concerned, the Whitley Council procedure provides for redress of grievances, in the last resort by a reference to the industrial court, but demands like one for general increases in wages cannot be so referred. These are matters recommended from time to time by the Royal Commissions on the Civil Service, and the principles and recommendations of these commissions are followed by government and by the industrial court.

Fundamental Difference

It is necessary to recognise one fundamental difference between government service and industrial enterprise. In the case of a private industrial enterprise, the wages and conditions of service that can be agreed to would depend on the capacity of the industry. A private sector industry may find enhanced salaries and wages by increasing prices (if that is practicable), and if there are continuous losses there is the possibility of closure. It is inherent in the system of private and competitive industry that there is this safeguard, this limiting factor keeping bargaining within practicable limits viz., the necessary restraint recognised by employees and unions against pushing demands beyond a certain level, which, if conceded, could lead to continuous losses or to closure. But in the case of government service collective bargaining is limited by the fact that increases in wages and improvement in conditions of service will have to be met by taxation or deficit financing, with its inevitable effect on the general level of prices. It is not feasible therefore to leave the decision as regards general increases in wages and improvement in conditions of service to the will of an arbitrator. The money for meeting such increases in wages has to be found by the legislature in a democratic country. In the last resort therefore the legislature must decide up to what point increases can be afforded and a balance struck by it between the claims of the staff and the capacity of the country to bear the expenditure by taxation.

In the United States the Taft Hartley Act provides that "it shall be unlawful for any individual employed by the United States or any agency thereof including wholly-owned government corporations to participate in any strike. Any individual employed by the United States or by any such agency shall forefeit his civil service status, if any, and shall not be eligible for reemployment for three years by the United States or any such agency." Some of the states in the USA have similar legislation applicable to state servants, but even where no such legislation applies courts have decided that employees in the public service have no right to strike and they may be discharged for striking. There is, of course, no question of any dispute about wages and conditions of service of government servants being referred to arbitration. In Australia where the principle of compulsory arbitration has been accepted and practised to a very great extent, the Public Service Arbitrator has jurisdiction to determine disputes relating to employment in public service, including persons employed by authorities such as the railways and the departments of works and housing. But under the Australian law, the decision of the arbitrator cannot come into operation until 30 days after it has been laid before Parliament, and a determination can be disallowed by Parliament. Besides, such questions as general increases in wages and improvement in service conditions are determined by the government on the advice of the Public Service Board and are not referred to an arbitrator.

Final Authority

It is, therefore, everywhere recognised that Parliament in a democracy must have the final authority in such matters as demands by government servants for general improvements in salaries and service conditions and this cannot be delegated to the decision of a party like an arbitrator or arbitration board. Therefore the strike such as the one in September last year against the decision of the government not to refer to arbitration the demand for a need-based wage was completely misconceived and deservedly failed.

The proposal referred to in the first paragraph of this article to incorporate into law a ban on strikes and for reference to arbitration of arbitrable matters is therefore justified on principle. It would also be necessary to provide that the award of the arbitrator, in such matters as are referred to arbitration, should be placed before Parliament and can be disallowed or modifed by Parliament, as in the case of the award of the Public Service Arbitrator in Australia. There is also another aspect of the matter which has to be considered. The capacity of the government to meet more expenditure on staff is limited, as stated above, not only by the fact that the money required would have to be found by resort to taxation or deficit financing but also by the fact that the government is practically compelled to keep more staff than it needs to on grounds of social justice, as under a democratic government, retrenchment would not only be extremely unpopular, but also mean aggravating the existing unemployment problem in the country. Even public sector industrial enterprises are in this respect in a less favourable situation as compared with private sector enterprises. In the case of public sector enterprises, both the pressure of unions as well as the conception of the state undertaking having to be a model employer have impelled managements of public sector enterprises to pursue uneconomic policies by keeping more staff than is necessary and not making necessary retrenchments in staff.

WINDOW ON THE WORLD

The Battle Against Supra-Nationalisation

JOSSLEYN HENNESSY

I

EUROPEAN CO-OPERATION IN THE BALANCE

LONDON:

IN TECHNOLOGY, as in other spheres, either the Europeans will hang together or they will hang separately. Although Europeans increasingly recognise the need for a collective European response to the threat of a widening "technological gap", they are finding it difficult. No less than in any other sphere of inter-state relations, collaboration on technological projects involves national prestige and national interests. If a state's consent is to be gained to any particular project, it must be persuaded not only that the project itself is sensible and technologically sound, but also that the benefits to its own economy are not less than its financial outlay. Up to now the principle of "fair return" has bedevilled European collaborative projects, though it is inevitable that the governments should interest themselves in the return that they can expect from them. What, however, the Europeans must strive to stop is that with every single project each government seeks to achieve a precise balancing of 'outputs' and 'inputs', contribution and benefits. It is increasingly obvious that if the Europeans are to secure the advantages of collaboration, they will have to abandon the item-by-item approach in favour of one which looks at each project in the light of European endeavour. If the Europeans can achieve this, they will have laid the basis for common action for a truly European approach to scientific research and technology.

At present, however, we are not even within striking distance of this goal. Indeed, with the continuing crisis of "Euratom" one wonders whether the Europeans are even headed in the right direction. Yet in recent months there have been a number of developments in space research and atomic energy that do offer some grounds for hope.

Launching Europe Into Space

The second European Space Conference held in July 1967 set up a working committee on programmes, which reported in 1968. The Causse Report, as this document is called, proposed an ambitious programme for European communication satellites to be put into orbit by a European launcher. The Causse proposals were welcomed by a majority of the continental European governments but rejected by the British, on the ground that they did not make economic sense. This was also the reason for the British government's decision earlier in 1968 to withdraw from the European Launcher Development Organisation programme after its present commitments expire at the end of 1970. The UK's unilateral action, which the Europeans did not like at all, was followed by the Italian government's decision to opt out of the ELDO research satellite programme. The UK and Italy thus brought to a head the crisis which had been endemic in the European space efforts since they began.

The agreement reached at the conference in Bonn means in effect the launching of Europe into space. Of greatest significance is the endorsement given to the Causse Report's proposal, that Europeans should widen their co-operation to include a programme of communication satellites, in addition to the research satellites programme. Metereological satellites, satellites for navigational purposes, and television relay satellites, are some of the possibilities that European experts will discuss in the coming months and put up for final decision before the end of this year.

The prospect that agreement will be reached to go ahead with one or more of these projects strengthens those who argue that Europe must have its own launching vehicle and should not depend on the Americans. The British met this continental logic with the financial argument that much higher expense would be involved in building a European launcher rather than buying an American equivalent. The British seem, however, to have edged closer to the continental viewpoint. During the recent conference they agreed not only to continue delivery of Blue Streak until 1976, but also to bear part of the additional cost that would be incurred if Europe acquires its own rather than an American launcher. It was agreed that the UK and other "non-launcher" countries would pay their share of the extra cost up to the point where it exceeds the cost of an American rocket by 25 per cent, but any additional cost would have to be carried by "launcher countries" alone.

"This is the beginning of a new deal", rejoiced Mr Wedgewood Benn at the close of the conference, "A new deal that will enable us to go commercial in space". For no reason that I can see, Mr Wedgewood Benn seemed determined to treat the results of the conference as a personal victory. The truth is that he went to Bonn still hugging the belief that the British withdrawal from future ELDO programmes would

Eastern Economist 25 Years Ago

FEBRUARY 25, 1944

With the definite statement by H.E. the Viceroy in his Assembly speech that the Finance Member will deal fully with the 'inflationary threat we are determined to avert', earlier expectations that the Finance Member has done his worst in the last four years have given way to the fear that further tax measures are in store. It is now clear that whatever measures are taken, the object of government is not so much to raise additional revenue to cover any budget deficit as to mop up surplus money as part of its anti-inflationary programme. It is also equally clear to us, though not to the government, that the rate of mopping up can, in the fiscal conditions of India, never equal the rate of pump-priming. There is no prospect whatever that the Finance Member will unfold constructive proposals for a full-scale mobilization on the economic front. He has already ruled this out, when in reply to a question in the Assembly he stated that the government were in consultation with His Majesty's Government considering to what extent the demands on India's war economy could be mitigated or met from other sources of supply and for the rest they would try to neutralize inflationary tendencies by such means as lay within their power. The thought of building up India's productive equipment for the purpose never occurred to him. In such a background, what does the coming budget hold out? What is the budgetary position now, and what are the fresh burdens likely to be imposed?

bring European launcher development to a halt, but what he, in fact, found was a clear determination among the leading countries on the continent to go ahead with the European launcher, whatever the British decided. Far from converting the Europeans to his view, he appears to have gone some way towards accepting theirs. By the commitments into which he has entered, the UK is neither in, nor fully outside, launcher development. In the short run there may be some advantage to the UK in this position astride the threshold, but sooner or later the British will have to make up their minds whether to join the club or to stay outside. When the pros and cons of this are assessed—and the decision is likely to be forced upon the UK by the continental desire to take launcher development a stage further than that so far planned by ELDO—the British will need a more sophisticated concept than Wedgewood Benn's purely "commercial" one. Space research draws on the technological skills and resources of the European countries. What is at stake is not so much any short run financial return which can be expected from a financial outlay, but the likely contribution to sustaining a high level of performance in technological industries as a whole.

II

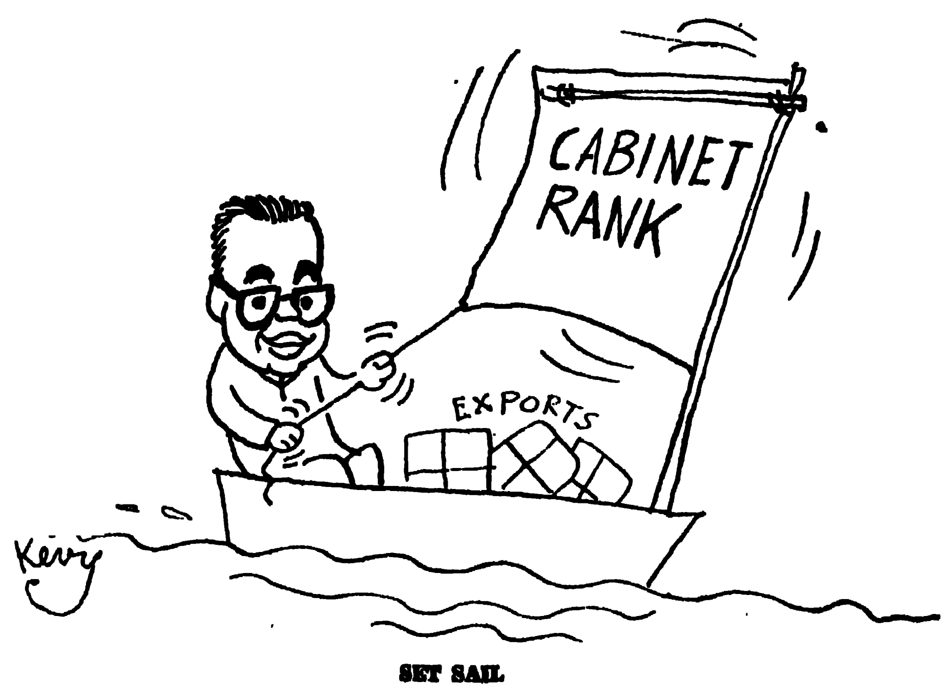
NUCLEAR ENERGY AND EUROPEAN INTEGRATION

The British press has scarcely noticed the signature of a potentially significant agreement between the Dutch, West German, and British governments to co-operate in the development and production of enriched uranium. As well as being required by some of the existing proven-type reactors, enriched uranium is the fuel needed for the next generation of reactors —the so-called fast-breeder—prototypes of which are under development both in the UK and on the continent. It has been forecast that by the 1980s, when fast-breeder reactors are likely to be in commercial use, the supply of nuclear energy may be hindered by a serious shortage of enriched uranium. Now that a breakthrough appears to have been made in the development of a new process of enrichment—gas centrifuge—this seems less likely, though, of course, production units have yet to be designed and put into operation. It is worth noting that one thing that has made this agreement possible is the belief of the parties to it that they have simultaneously reached about the same level of development in their research. There does not therefore seem to be any question of one partner disclosing his secrets and getting no new information in return.

Another important point is that this agreement is a splendid example of the pragmatic approach which the Tory leader, Edward Heath, advocated at the recent Hague Congress as most likely to advance the cause of European integration in the long run. A real need for nuclear fuel was discovered and appreciated, an agreement signed and a concrete achievement is likely to emerge. And all this without the creation of any special institution.

Marechal Group

The consideration of science-technology policy in the European Economic Community has been mixed up with the problem of enlarging the communities. When the French government cast its second veto against the British application to join the EEC, the Dutch (who were later joined by the Italians) withdrew from the committee of senior civil servants —known as the Marechal Group—set up to study the possibilities of co-operation in various sectors and to make concrete suggestions. The Dutch and the Italians have now been persuaded to end their boycott of the Marechal Group in return for an undertaking that the applicant states will be associated with the formation of Community policy at an earlier stage than the French had hitherto been prepared to accept. The Marechal Group is due to report before March 1. The EEC Council will give it a preliminary examination and will then send out invitations to other governments to participate in specific projects. The French have been able to insist that the offers to non-member countries should not be restricted to applicant states. Whether this is a workable formula remains to be seen. I foresee difficulties. How is the Community to decide whether a non-member country should be invited to take part in any particular project? Is each member of the Council to have a veto? My suspicion is that the Council's decision of December 11 amounts not so much to a compromise on the substantive issues at stake as to an agreement to alter the context in which the differences of



SET SAIL

opinion in the Six on technological collaboration with Britain will henceforth be fought out.

III

MERGERS NATIONAL OR SUPRANATIONAL ?

To the alarm of the European Commission and of "European" interests—both political and economic—throughout the Community, there are still no signs that industrial integration is going to be allowed to take place supranationally.

Practically all the large recent European mergers, and others still being discussed, have been inside national frontiers. This reflects the wish of governments and industries to create large efficient national entities capable of withstanding and challenging outside competition. The fear of domestic monopoly has been less than the fear of falling under foreign control.

But the concept of what constitutes foreign control is changing. Until recently foreign control meant American control—both in Britain and in Community countries; but of late, the merger fever has been increased by the desire to stand up to the competition from other European countries particularly within the EEC where it is no longer tempered by tariff protection. Economic nationalism has gained over the European idea of supranational integration—and not only in France. In the long run, of course, the greater economic efficiency brought about by national mergers should eventually benefit the integrated Community but, at present at least, purely national considerations prevail, particularly in France as has been demonstrated by President de Gaulle's objection to the Citroen-Fiat deal for obviously nationalist reasons. West Germany's resentment of the efforts of the Compagnie Francaise des Petroles to acquire a shareholding in the Gelens-

LEADING EUROPEAN INDUSTRIAL COMPANIES IN 1967

	Company	Headquarters	Industry	...r ...on)
1.	Royal Dutch/Shell	Netherlands/UK	Petroleum etc.	[illegible]
2.	Unilever	UK/Netherlands	Food, chemicals etc. ...	...50
3.	British Petroleum	UK	Petroleum	2,974
4.	ICI	UK	Chemicals	2,692
5.	National Coal Board	UK	Coal	2,439
6.	Philips	Netherlands	Electrical	2,402
7.	Volkswagen	Germany	Cars	2,334
8.	Montecatini/Edison	Italy	Chemicals	2,092
9.	Siemens	Germany	Electrical	1,984
10.	Fiat	Italy	Cars	1,911
11.	Nestle	Switzerland	Food	1,796
12.	Farbwerke Hoechst	Germany	Chemicals	1,650
13.	August Thyssen-Hutte	Germany	Steel	1,638
14.	Renault	France	Cars	1,519
15.	Daimler-Benz	Germany	Cars	1,491
16.	Farbenfabriken Bayer	Germany	Chemicals	1,459
17.	C. F. des Petroles	France	Petroleum	1,343
18.	British-American Tobacco	UK	Tobacco	1,320
19.	British Motor	UK	Cars	1,308
20.	ENI	Italy	Petroleum	1,295
21.	BASF	Germany	Chemicals	1,259
22.	Krupp	Germany	Steel	1,258
23.	Finsider	Italy	Steel	1,203
24.	AEG-Telefunken	Germany	Electrical	1,139
25.	English Electric	UK	Electrical	1,132
26.	Pechiney	France	Aluminium	1,114
27.	Dunlop	UK	Rubber	1,070
28.	Rhone-Poulenc	France	Textiles	1,063
29.	Courtaulds	UK	Textiles	1,045

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berg Oil Company, which attracted less attention, does not, however, basically differ from the French attitude.

These developments could easily strengthen the centrifugal forces in the Community, where patience seems to be wearing thin in the face of France's persistent nationalistic blocking tactics in all outstanding issues, among which British membership and agricultural finance are the most important. Having come so far, however, the odds are still that the Community will not break up but will stumble forward (more or less at the pace permitted by France) in the hope of ragaining momentum after the General's departure from the political scene. Yet nobody is sure whether Gaullism will or will not survive de Gaulle.

Europe's Biggest Companies

The list on page 323 of the leading European industrial companies in 1967, compiled from the latest 'Fortune' directory of the 200 largest industrial companies outside the United States, shows that there were 29 European-based industrial companies in 1967 with a turnover of over $1,000 million. To some extent it explains French anxiety about the growing power of companies in other European countries.

France had four among these top 29, compared with West Germany's nine, Italy's four, and Britain's 10 (including the top two jointly held with the Netherlands). Moreover, France's four come low on the list; the biggest French company achieves only the fourteenth place.

The list does not take account of recent mergers, such as that in the UK between the British Motor Corporation and Leyland with a combined turnover in 1967 of $2,162,000, or of that between Associated Electrical Industries and General Electric with a 1967 combined turnover of $2,162,000. If the proposed merger with English Electric is added to the latter the total is pushed up to $2,378,000, which threatens the position of Philips, now in sixth place. Among other changes noted in 'Fortune's' list is the takeover by Pechiney of Trefimetaux, which pushed Pechiney up in the league table. Many more changes can be expected in the next few years, reflecting the present flurry of mergers in West Germany, the activities of the Industrial Reorganisation Corporation in the UK, and also the huge merger now planned in Italy between Montecatini/Edison, ENI, and IRI. You should also note that there are nine Japanese companies with a turnover of over $1000 million, ranging from Hitachi with a turnover of $1,749,000 to Nippon Kokan with sales put at $1,014,000.

SDR's May Come Into Being This Year

GERARD A. DONOHUE

WASHINGTON:

AS WORLD trade has expanded rapidly in recent years—it is now more than $200,000 million per year—gold and hard currency reserves of nations have not grown at anything like the same rate. Nations faced with shortages of reserves and adverse balance of payments problems must take corrective action, which means either holding back on domestic growth, imposing restrictions on movements of goods and capital, or both.

The production of gold simply cannot keep up with the demand. Only about $1,400 million worth is mined yearly in the non-communist world, and much of this finds its way into industrial or artistic uses, or into the hands of hoarders or speculators, and not into the official reserves of nations. To finance expanding trade and cut down on restrictions on trade and capital movements, the Board of Governors of the International Monetary Fund decided in 1967 to "create" a new reserve to take its place alongside gold, the dollar and pound sterling, the principal means of international payments.

Necessary Steps Taken

These new reserves, with the unwieldy name of "Special Drawing Rights," (SDR) will come into existence and be distributed when 60 per cent of the members of the IMF holding 80 per cent of the weighted vote accept the proposal, and when members having at least 75 per cent of IMF quotas deposit their certificates of deposit in the Special Drawing Account. Many nations including the United States have taken the necessary steps and it is generally believed that the required number of nations will take action soon and the SDR's will become a reality this year. SDR's will, in effect, add to the gold reserves of the participating nations and, like gold, will be acceptable in exchange for currencies of any of these nations. They will not be the debt of any nation as the dollar, for example, is a commitment of the United States.

The SDR's will be issued to those nations having balance of payments problems, but unlike ordinary loans or debts they will not be wiped out when payment is made but only transferred from one holder to another. Another way of looking at SDR's would be to consider them as assets and means of payments among central banks. A country in need of hard convertible currency will present its Special Drawing Rights to another country with a surplus of hard currency and receive needed foreign exchange, while the surplus country will list the SDR's as assets along with gold and other hard currencies.

However, the SDR's will be only one fairly small step towards improving the world monetary system. As of now, the grand total of reserves of IMF members is more than $73,000 million. Just how many dollars worth of SDR's will be created in the next few years is, of course, unknown. I will be determined by the members. A leading expert on international finance, Mr Robert Triffin of Yale University, believes that only $1,000 or 2,000 million worth will be created a year. Even if SDR's were adopted enthusiastically—and many are still sceptical of their efficacy—and were issued in far larger amounts, they still wouldn't solve some of the fundamental problems of the international monetary system.

Some currencies are overvalued and some are undervalued. And there will also certainly be "crises" in coming years as people lose confidence in one currency or other and seek to exchange it for another they believe to be sounder. But the nations of the world, by working in unison, have been able to handle the financial problems of the past few years and the creation of the Special Drawing Rights is another move towards even more co-operation. If the SDR's are used as they are meant to be, to aid a nation having temporary balance of payments problems, they will be of benefit to all.

GROW MORE

SAVE MORE

WORK MORE

The moving finger writes

THE PERFORMANCE of the Congress party in the mid-term poll in Uttar Pradesh tempts me to recall the following incident. The occasion was the Republic Day reception at Rashtrapati Bhavan. Mr K. C. Pant, who had just returned from a spell of electioneering in his home state, was being asked by some of us for his impressions of how the game was going for his party. He said that he was hopeful of the Congress securing a majority of seats in the state legislature. Mr E. P. W. da Costa, who had just then started his Gallup report series in 'The Times of India', took it upon himself to challenge him and demanded of Mr Pant how the latter could afford to ignore the Congress "multiplier" which seemed to decree a coalition for UP.

Mr Pant, we could all see, was not at all impressed. He said that he claimed to know his UP and that he was no stranger to electioneering either. Gallup poll or no Gallup poll, declared Mr Pant, he stuck to his opinion that the Congress would be able to form a government on its own in Uttar Pradesh. At this point, the irrepressible Mr da Costa was indiscreet enough to demand, again, how Mr Pant could afford to brush aside the moral of the "multiplier". Mr Pant's response was wholly in the classical tradition of his late father. With an imperturbability of which the old man would have been proud, he declared—very politely, but very firmly—that if the "multiplier" did not happen to agree with his judgment based on his observations of the UP election scene so much the worse for the "multiplier". Now, who had it right? The pollster or the politician?

* *

Last week I spoke of the deterioration in the morals of political parties and the government with reference to the collection of political funds. Are their manners any better? There was so much politicking in Tirupati, where Congress leaders had gathered for the wedding of Mr Sanjiva Reddy's son, that the spotlight was on almost everybody except the bridegroom. Cameras clicked overtime photographing, for instance, Mrs Indira Gandhi in what must be a private act of worship when she went to the shrine on the Hills. I was particularly repelled by a picture of the Prime Minister dropping her offerings into the temple "Hundi". Even publicity must have its limits of private propriety or public decency. It was, however, not the doings of the Prime Minister alone which were proclaimed for public attention. The inevitable Mr Nijalingappa and the inscrutable Mr Kamaraj also had their respective shares.

* *

So much for the manners of politicians. The manners of government, if anything, are worse. Indeed so low have they fallen that the government's treatment of its own officials is becoming devoid of all grace. There is for instance the case of an outstanding civil servant, with a nationally celebrated record of dedication, drive and dynamism during the difficult years following Independence. When the time came recently for him to retire from the ICS, the government had not even been able to make up its mind on who was to be his successor to whom he was to handover charge—although the office in question was the post of secretary in one of the key ministries at the centre. So far as I am aware, there is not even a line of commendation from his political masters to say that the government appreciates his great services to the administration during some of the most critical years through which the nation has had to pass.

* *

Yet another recent example of the uncivilised behaviour of the people in government is provided by the shabby treatment meted out to the Chairman of the National Small Industries Corporation who laid down office some days ago. There are surely certain standards to be observed by ministers or secretaries to ministries in their official dealings with a public servant who had rendered valuable service in an important public office. Although Mr Sundaram showed a natural interest in discussing with the minister or the secretary of the ministry concerned the future of an institution for which he had laboured to considerable effect, the big bosses in Udyog Bhavan just did not have any time for him. Mr Sundaram is a rare, gentle spirit. He, indeed, is the perfect gentleman. Hence it is that, when he left Delhi some days ago, he left it without resentment but sadly perplexed by the meanness of some men in power or authority.

* *

The Rajdhani Express, which the railways are planning to introduce shortly, is more than a simple addition to the travel facilities available on the Delhi-Calcutta route. It is an expression of the developing quality-consciousness among the travelling public as much as among railwaymen. Gone are the days when the performance of the railway system could be judged merely in terms of the number of men moved or goods carried. Be it passenger traffic or goods traffic, it is both desirable and possible for higher standards of railway service to be demanded and provided. In a country of great distances, with a people for the mass of whom the more expensive means of travel, such as the airline or the private automobile, are just not available, a consistent and continuing effort at minimising the physical strain and improving the physical comfort of train journeys must be accepted by the railways as one of their basic obligations.

The Rajdhani Express, which cuts down the duration of the journey by seven hours, is some evidence that the railways realise this. It is worth noting that this express is not a rich man's toy. The bulk of the accommodation provided on it will be on air-conditioned chair cars. This mode of travel, first introduced on "de-luxe" trains on important trunk routes, has already proved popular among middle-income groups. Everything considered, there seems to be a bargain here for those middle-income travellers who may not mind paying a little more occasionally for what may well be enjoyable travel. There is one final point. Although the Rajdhani Express does not claim to compare in speed with fast express trains in other advanced countries, it is certainly aiming at a breakthrough where train speeds in our country are concerned. This has necessarily involved much research and technological development, particularly in relation to track structure and signalling equipment. It is obvious that the gains in these directions will immediately benefit all train operations in the areas concerned and, over a period, railway efficiency across the country in general. The coaches have been specially manufactured for the Rajdhani Express by the Integral Coach Factory in Madras and, here again, an advance has been registered in domestic excellence in the designing and construction of passenger coaches. The power generating equipment has been manufactured by Kirloskar and its installation on the Rajdhani Express marks a departure from the railways' practice of indenting on Rolls Royce power-generating units for such purposes.

V.B.

Trade Winds

NEW MINISTERIAL SET-UP

THE PRIME Minister announced on February 14 a number of changes in her Council of Ministers. The following is the new set-up:

1. Prime Minister, Atomic Energy and Planning—Mrs Indira Gandhi.
   Deputy Minister attached to the Prime Minister—Mrs Nandini Satpathy.
2. Deputy Prime Minister and Minister for Finance—Mr Morarji Desai.
   Minister of State—Mr P. C. Sethi.
   Deputy Minister—Mr Jagannath Pahadia.
3. Home Minister—Mr Y. B. Chavan.
   Minister of State—Mr V. C. Shukla.
   Deputy Minister—Mr K. S. Ramaswamy.
4. Food and Agriculture, Community Development and Co-operation Minister—Mr Jagjivan Ram.
   Ministers of State—Mr A. P. Shinde and Mr M. S. Gurupadaswamy.
   Deputy Minister—Mr D. Ering.
5. Labour and Rehabilitation Minister—Mr J. L. Hathi.
   Minister of State—Mr B. Jha Azad.
   Deputy Minister—Mr S. C. Jamir.
6. Tourism and Civil Aviation Minister—Dr Karan Singh.
   Deputy Minister—Mrs Sarojini Mahishi.
7. Health and Family Planning, Works, Housing and Urban Development Minister—Mr K. K. Shah.
   Ministers of State—Mr B. S. Murthy and Dr S. Chandrasekhar.
8. Law and Social Welfare Minister—Mr P. Govinda Menon.
   Minister of State—Mrs Phulrenu Guha.
   Deputy Ministers—Mr Mohammed Yunus Saleem and Mr J. B. Muthyal Rao.
9. Steel and Heavy Engineering Minister—Mr C. M. Poonacha.
   Minister of State—Mr K. C. Pant.
   Deputy Minister—Mr Mohammed Shafi Qureshi.
10. Railway Minister—Dr Ram Subhag Singh.
    Minister of State—Mr Parimal Ghosh.
    Deputy Minister—Mr Roshan Lal Chaturvedi.
11. Information and Broadcasting and Communications Minister—Mr Satya Narain Sinha.
    Ministers of State—Mr I. K. Gujral and Prof. Sher Singh.
12. External Affairs Minister—Mr Dinesh Singh.
    Deputy Minister—Mr Surendrapal Singh.
13. Defence Minister—Mr Swaran Singh.
    Minister of State—Mr L. N. Mishra.
    Deputy Minister—Mr M. R. Krishna.
14. Petrochemicals, Mines and Metals Minister—Dr Triguna Sen.
    Ministers of State—Mr Jagannatha Rao and Mr D. R. Chavan.
15. Foreign Trade and Supply Minister—Mr B. R. Bhagat.
    Deputy Minister—Chaudhry Ram Sewak.
16. Industry, Internal Trade and Company Affairs Minister—Mr Fakhruddin Ali Ahmed.
    Minister of State—Mr Raghunatha Reddy.
    Deputy Minister—Mr Bhanu Prakash Singh.
17. Education and Youth Services Minister—Dr V. K. R. V. Rao.
    Minister of State—Mr Bhakt Darshan.
    Deputy Minister—Mrs Jahanara Jaipal Singh.

    Ministers of State in charge of Ministries:
18. Parliamentary Affairs, Shipping and Transport—Mr K. Raghu Ramaiah.
    Deputy Minister—Mr Iqbal Singh.
19. Irrigation and Power—Dr K. L. Rao.
    Deputy Minister—Mr Siddheshwar Prasad.

HARYANA BUDGET

The 1969-70 Haryana budget, presented last week in the state Vidhan Sabha in Chandigarh by Mrs Om Prabha Jain, has an overall deficit of Rs 6.34 crores. Revenue receipts for 1969-70 have been estimated at Rs 78.34 crores and expenditure on revenue account at Rs 79.79 crores. The revenue receipts show an increase of Rs 3.78 crores over the revised estimates for 1968-69. Revenue expenditure shows an increase of Rs 8.70 crores over the revised estimates for 1968-69. No new taxes have been proposed and the gap is left uncovered. The year will open with a minus balance of Rs 5.10 crores and is expected to close with a minus balance of Rs 6.34 crores. Plan outlay for the next year has been raised from Rs 23 crores to Rs 26 crores.

KERALA BUDGET

An overall deficit of Rs 20.06 crores is estimated in the Kerala budget for 1969-70, presented in the state assembly at Trivandrum on February 8. The total deficit comprises Rs 11.43 crores on revenue account and Rs 8.63 crores on capital account. The gap is intended to be covered partly by additional taxation which will fetch Rs 2.25 crores. The new proposals include an education cess, admission fee to schools, one to two per cent rise in sales tax, rationalisation of stamp duty and increase in motor vehicles registration fee. Revenue is estimated at Rs 135.27 crores and expenditure at Rs 146.70 crores. This year's revenue receipts at Rs 135.25 crores show an increase of Rs 3.25 crores over the estimated Rs 131.02 crores.

H.M.T. INCURS LOSS

The Hindustan Machine Tools has gone into the red for the first time since it went into commercial production in 1956-57. It incurred a loss of Rs 65.95 lakhs in 1967-68 as against the net profit of Rs 126.33 lakhs earned in the preceding year. This is revealed in the company's annual report for 1967-68. Compared to 2,665 machines turned out in the previous year, the aggregate production was 1,807 for the period under review. HMT had received orders for only 1,217 machines as against 2,276 in the previous year. In all HMT despatched 1,592 machines valued at Rs 1,196.46 lakhs as compared with 2,505 machines valued at Rs 1,256.69 lakhs in the previous year. The dismal performance of HMT is attributed mainly to the industrial recession which resulted in lack of orders and accumulation of stocks with the company. In spite of the management's efforts to curtail production in line with demand, stocks of finished machine tools had increased from Rs 225.52 lakhs on March 31, 1967 to Rs 298.14 lakhs on March 31, 1968. Had it not been for the carry-forward orders to the extent of 1,072 machines from the previous year, the results would have been disastrous, the report points out. Aggressive marketing techniques increased export orders and higher production and demand of watches stood as a silver lining for the state-owned factory plagued by recession in the last three

years. On exports, the report says, HMT secured orders for 98 machines as against 51 during the previous year.

OIL INDIA'S TENTH ANNIVERSARY

Oil India Limited, a 50:50 partnership between the Government of India and the Burmah Oil Company, completes its 10 years of existence on February 18. The celebrations commenced at Daliajan on February 12. The cumulative output of the company uptil now is of the order of Rs 120 crores, while the crude oil produced by it saves the country about Rs 25 crores per annum in terms of foreign exchange. Oil India has so far drilled 265 wells of which 207 produce oil and 10 produce gas, while 24 are being tested. The crude production and sales of the company during 1968 amounted to 2.8 million tonnes, as against 2.7 million tonnes in the preceding year. This is remarkable particularly because of the disruption caused by the unprecedented floods in Assam last November. Incidentally, Oil India displayed remarkable efficiency by repairing the breaches in the pipeline caused by the floods and resuming crude supplies to Barauni refinery within a record period of 21 days. The company has drilled 10 exploration wells in Dum Duma area of which seven have turned out to be dry. Of the remaining, one is oil-bearing and another one is gas-producing while one still remains to be tested. It also drilled two wells in the NEFA area for the first time. Oil India has spent over Rs 4 crores on exploration in the Dum Duma and NEFA areas and it has plans to spend on its exploration programmes over the next three years an amount of Rs 5 crores, of which the foreign exchange component of Rs 1 crore will be met by the Burmah Oil Company. The company has improved the time cycle of its crude conditioning plant and has extended its use to the Oil and Natural Gas Commission.

INTERIM DIVIDEND BY S.T.C.

The State Trading Corporation has declared an interim dividend of 6 per cent for the current financial year. The total dividend this year is hoped to be kept at 15 per cent on the present capital of two crores of rupees. The capital of the Corporation, however, is expected to be doubled in the near future. A proposal has been put forth to capitalise reserves by a bonus issue in the ratio of one bonus share for every share already held. The Chairman of STC, Mr P. L. Tandon, who has proceeded to Australia and New Zealand to study trade prospects with these two countries is likely to finalise purchase of nearly Rs 15 crores worth of wool and some quantities of tallow from Australia. In New Zealand he will have negotiations for the import of milk powder. With a view to stepping up its exports to Australia and New Zealand, the STC chairman will impress upon the exporters in these countries the need for buying more from us. There is understood to be a good market in Australia and New Zealand not only for our traditional goods but also for many an engineering item, especially railway equipment. On his way back, Mr Tandon is also likely to visit Bangkok and Kuala Lumpur to assess the prospects of export trade with Thailand and Malaysia. The STC has invited two business teams from these countries to study what they can buy from here.

I.C.L. COMPUTERS

The Managing Director of International Computers Limited (ICL), of the United Kingdom, who is currently in this country to study at first hand the working of ICL (India), disclosed at a press conference here last week that this British company wanted to make India as the base for exports of computers not only to the eastern hemisphere but also to eastern Europe. ICL's third generation computers 1901-A series are being manufactured at Poona and Bangalore in collaboration with the public sector concern, Bharat Electronics Ltd, under the aegis of ICL (India) which is owned by the British company to the extent of 60 per cent and by the Indian public to the extent of 40 per cent. The ICL has given an undertaking to the Government of India that it will export complete computers and equipment to the value of at least 10 per cent more than what its import bill will be. This means that ICL (India) will be a net earner of foreign exchange for the country. In the next few years exports of ICL (India) are expected to reach a level of Rs 4.4 crores. Its import bill will be not more than four crores of rupees. The net earning of foreign exchange, thus, will be Rs 40 lakhs per annum. The foreign exchange component in ICL Indian computers, which at present is around 85 per cent, is proposed to be reduced to 35 per cent in the fourth year of production when nearly 50 computers will be produced. The British company has also assured the government that all the future improvements in its technical know-how would be passed on to ICL (India) without any payment of royalty. This technical know-how will also be available to Bharat Electronics.

INDO-BRITISH TRADE

India continued to enjoy a favourable balance of trade with the United Kingdom during 1968. Our exports were of the order of £13.53 million during the year as against the imports of £7.16 million. The corresponding figures for 1967 were £12.6 million and £8.2 million. Of our exports to the UK, tea continued to enjoy a predominant position with its earnings amounting to £5.0 million, even though they are slightly lower than £5.2 million in 1967. Textiles, tobacco and leather exports recorded increases. Our imports from Britain, on the other hand, consisted mainly of machinery and equipment.

EXIMBANK COMPLETES 35 YEARS

The Export-Import Bank of the United States has completed 35 years of operations supporting America's foreign trade. The bank, also called the Eximbank, was founded on February 12, 1934, with a capital of $11.00 million. Today its capital is $1,000 million and its total lending authority is $13,500 million. An independent corporate agency of the US government, the bank helps finance the export trade of the United States. The bank does not compete with private capital but supplements it to encourage export financing. Loans are generally for specific purposes. The bank's loans have financed jet aircraft and locomotives; mineral extraction industries; electric power plants; cement mills, fertilizer and chemical plants; satellite communications ground receiving and transmitting stations, and many other kinds of enterprise. India has received a loan of $17 million from the bank for the Varanasi locomotive plant.

NEW F.I.C.C.I. CHIEF

Mr Ramnath A. Podar has been unanimously elected to be the President of the Federation of Indian Chambers of Commerce and Industry for the year 1969-70. He will take charge from Mr Gujar Mal Modi on March 17 at the conclusion of the 42nd Annual Session of the Federation. A prominent industrialist from Bombay, Mr Podar has extensive interest in industry, trade, banking and insurance.

NAMES IN THE NEWS

Mr R. N. Kaul, Deputy Commercial Director of Air-India, Bombay, at a meeting held recently in Bangkok, was elected a member of the Board of Directors of the Pacific Area Travel Association (PATA). He was also unanimously elected President of PATA's newly-formed India Chapter in Bombay.

Mr J. C. Finlay, chief representative of the Burmah Oil group of companies in India and Managing Director, Oil India Limited, has been elected to the boards of Assam Oil Company Limited and Burmah Oil Company (India Trading) Limited.

Mr Raj Paul Chadha, Vice-President of the Delhi Stock Exchange Association, has been elected President of the Delhi Chamber of Commerce.

Mr K. K. Jajodia, a leading industrialist and businessman of Calcutta, has joined the reconstituted Board of Trade as a non-official member.

COMPANY MEETINGS

NATIONAL AND GRINDLAYS BANK

Extracts from the Statement by the Chairman, The Rt. Hon. Lord Aldington, P.C., K.C.M G., C.B.E., D.S.O., for the year ended 31st December, 1968.

I am writing this Statement about our progress in the past year a few weeks before—subject to appropriate shareholders' consent—Ottoman Bank branches join us, and a month and a half before—subject to Court approval and your consent—our proposed Capital reconstruction is completed by the very welcome support from our new U.S. partner, First National City Bank, and the equally welcome additional support of Lloyds Bank.

The year 1968 saw every bit as much progress as earlier years, and firm foundations have been laid for much greater strength in the future. 21 new branches and sub-branches were opened. The Merchant Banking Division in India began operating in the late autumn. Advisory Boards became effective in India, Pakistan, Kenya and Uganda. A new subsidiary, Grindlay Brandts S.A., was established in Geneva. A representative office was started in Birmingham. President Kenyatta formally opened our new I.C.L. 1901 computer centre in Nairobi, and the installation of a similar computer in Karachi is nearing completion.

In Consolidated Balance Sheet terms the year 1968's progress is shown by an increase in deposits we estimate to be of above £50m. or 12% and an increase in Advances of about £30m. or 15%.

In terms of Consolidated Profit our estimate for 1968 compared with £1,390,000 for 1967 is a figure of £1,502,000, after making the normal deductions.

DISTRIBUTION OF NET PROFITS

(Per cent)

	1965	1966	1967	1968
Asia	53	39	30	31
Africa	12	17	11	13
London including subsidiaries	35	44	59	56
Total	100	100	100	100

I can best summarise the year's results as follows:

In India profitability in rupee terms was lower in the first half of the year but the second half-year's results showed substantial improvement over the second half-year of 1967. Our business in India in amount and in quality justifies even better results, and I am confident that with the acceptance of new methods and new machines, when that becomes possible, much more satisfactory results will be achieved, more satisfactory to our customers, more satisfactory to our staff and therefore more satisfactory to us. Our branches in India have had the advantage of a substantial capital sum remitted to India following our agreement with the Government of India in relation to Social Control, and they are backed by a developing sterling loan business which helps to finance capital programmes of some important and successful Indian customers.

Our Pakistan business has staged a welcome recovery. Deposits have increased for the first time for a number of years, and profitability has begun to recover. Our Chief Manager in Pakistan has completed a reorganisation which will give him the equipment and men to improve his position against the undoubtedly efficient and competitive Pakistan banks.

Our branches in Ceylon have also had a more successful year. 1968 may well be the last year in which we are subject to restrictions against accepting new deposits. When these restrictions are removed, we shall be in the position, which we have wanted for many years, further to assist Ceylon's business and economy generally.

In Aden our Chief Manager's relationship with the Government, as their principal banker, has been close and helpful. The profit of our branches there has been reduced by the necessity to provide for some bad debts and losses due to frauds, but we can record an increase in confidence generally in Aden which will help business and should give us an opportunity for a better banking year in 1969.

In Kenya, we had hoped that the many new branches opened in the past two years would help to build up the profit of our business there as well as provide the additional deposits—which was their main banking purpose. In fact due principally to coffee berry disease in many cases progress of the smaller new branches has been slower than we had hoped. Partly because of this, partly because of earnings in Nairobi itself being restricted and partly because of the effect on charges of the installation of the computer, Kenya's results were disappointing. But deposits have risen significantly and we are building up a sound business there. With the help of the computer coupled with the planned advance in the Kenya economy, better results can be confidently expected in the future.

In Uganda, where expansion has relatively been almost

as fast as in Kenya, profits have not been badly affected and the outturn for the year was very satisfactory. Profits were in fact, in shilling terms, some 30% higher than in 1967, which itself was a good year.

In Zambia we needed in 1968 a period of consolidation. Organisation and methods are improving and training advancing. The results were less good than in 1967 but the problems of which we have been aware for some time are now under better control.

Our two branches in Somalia are still suffering from the effects of bad debts incurred several years ago, but foundations are being laid for a sound business in the future. We now have a better understanding of the economy of Somalia as a whole and we hope to be opening a branch in Mogadiscio shortly.

In Rhodesia, our Chief Manager there reports steady progress and the new business which he has created appears to be on sound lines.

In our Head Office in London costs have increased as a result of the new developments we are undertaking. Our business in London of all kinds has expanded, and total London earnings of the Bank compared favourably with those of the year before.

Taking the Bank as a whole, our exchange earnings were substantially higher than in 1967—and the growth was larger than can be explained by the devaluation of sterling. Net interest was also higher. But the operational costs of the Bank rose by nearly as much.

DIVIDENDS

The Directors have decided to recommend to you that the total dividend for 1968 should be 13.9725% as compared with 13½% last year. They are in no doubt that it is right to increase the rate of dividend. As part of the Prices and Incomes policy we are however asked to keep down increases in dividend to 3½% maximum. We see no justification for going below the maximum and hence this extraordinary figure of 13.9725%. At the same time we have decided to pay a First Interim Dividend of 3% for 1969—in accordance with the practice followed in the last three years.

BRANCH COVERAGE

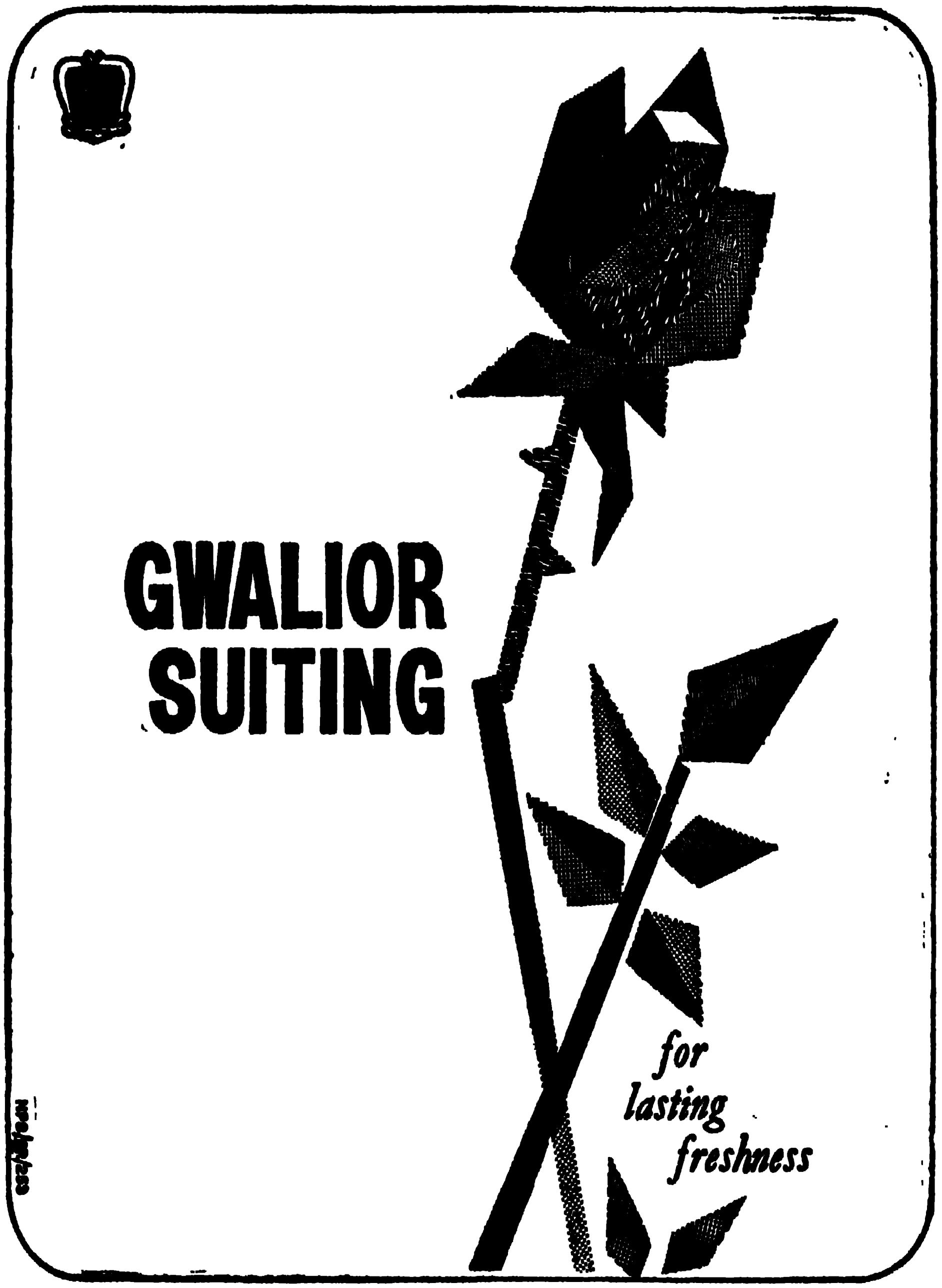
We now have 242 branches and sub-branches overseas. (The new branches opened last year included 2 in India, 7 in Kenya, 4 in Uganda and 3 in Zambia). We hope that on 1st March this total will be increased by 52 branches from the Ottoman Bank. This will give a new total of 294 branches and sub-branches. In 1957 when I first joined the Board of the National Bank of India, the total number of branches and sub-branches of the N.B.I. and of Grindlays which was then a wholly-owned subsidiary was 87. Such a large increase in the number of branches for which we are responsible must involve significant changes in organisation as which, indeed, have taken place in the last twelve years, coupled with an important amount of devolution of responsibility and power of decision. This process will continue, probably accelerated, in the near future. Modern communications, coupled with the management training systems which have been in practice now for some time, will ensure co-ordination of methods and policy. The total staff and management of the Bank is now considerably over 10,000 men and women with 383 officers overseas.

There is a very stimulating life career open to any young man who joins our international and overeas banking staff from this country.

CONCLUSION

A new Headquarters, new Capital, new banking partners, a wider spread of operations in new countries and new types of business all have come together in what will be an eventful year for the Bank.

The full Statement may be obtained from the Bank's Head Office at 26, Bishopsgate, London, E.C.2. or from the nearest Branch.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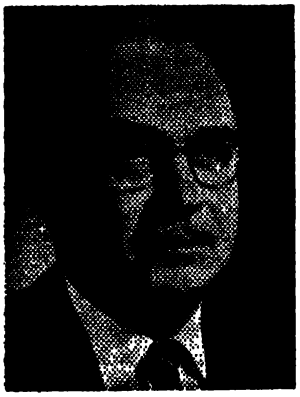

Mr. R. F. S. Talyarkhan

VOLTAS LIMITED

Significant Progress in a Difficult Year

The following is the Statement by Mr R.F.S. Talyarkhan, Chairman & Chief Executive, Voltas Limited, circulated to the Members of the Company with the Annual Report for the year 1967-68.

The year under review saw yet another significant increase in the volume of business achieved by your Company, despite many unfavourable factors. Almost all Trading Divisions recorded improved sales and gave promise of even better things to come. This is more an indication of the Company's resilience than an index of any marked improvement in the country's economy.

1964-65 saw the beginnings of the slump in organized industrial development, and every year since then, including the financial year just over, has witnessed mounting strains. It speaks highly of the inherent strength of your Company that despite difficulties we have been able to register increase in turnover totalling over Rs 26 crores in four years, which approximates to the Company's total overall annual turnover 7 years ago.

Margins were seriously affected because of the continued depression in the market for engineering goods. On the other hand, operating expenses were higher, partly on account of the larger volume of business transacted and partly due to factors beyond our control. Staff increments and increased Dearness Allowance alone accounted for an increase of Rs 31 lakhs.

The recessionary conditions led inevitably to larger inventories and outstandings for the greater part of the year resulting in an increase of Rs 19 lakhs in interest charges. As a result of intensive efforts, however, we were able to effect a marked improvement in the utilisation of working capital in the latter part of the year.

Enough has been said, in the press and from platforms, about the recession and I shall, therefore, not dwell on this aspect further, but will try, on the other hand, to analyse a positive aspect of the economic situation of which we should be able to take advantage.

In the last five years real national income has gone up by 20%, money supply has increased by 68% and surprisingly enough the wholesale price index by almost the same extent, namely 66%. If both the money supply and the price level rise by approximately the same amount it is apparent that for the country as a whole there has been no decline in purchasing power in the sense of money incomes; yet we are faced with a recession, especially in the engineering industry. One explanation of this dichotomy is that money incomes have been accruing to a sector not normally accustomed to purchase either capital equipment or engineering products or even consumer goods, viz., the agricultural sector.

In actual figures agricultural incomes may well be growing annually at the rate of approximately Rs 1800 to Rs 2000 crores. This opens up a vast requirement for those inputs which have brought prosperity to the farmer such as tractors, soil and animal nutrients, irrigation systems, plant protection products and equipment.

Then there is the demand for consumer goods. Even if only 25% of the Rs 1800 crores additional income is ultimately spent on consumer goods, there will be need to organise the marketing of a further Rs 450 crores of such goods for the rural sector every year.

Over and above the requirements of agricultural inputs and consumer goods, there is the innate hunger of the farmer for more arable land and to provide for this there is a considerable potential from the rural sector as a whole for electrification and minor irrigation projects as also for land reclamation and shaping equipment.

It is clear that these dramatic developments call for a reorientation of our marketing strategy. Your Company is fortunate in that its main assets and strength are the management and technical skills which have been built into the organisation over the years. These talents, which have an inherent flexibility, are being harnessed to enable the Company to play as important a role in the rural areas as it has done for so many years in the urban and industrialised sectors.

Reaching the farmer requires a new type of distribution channel. The farmer cannot afford to wait. If a pumping set is not repaired or replaced in time, he may lose his crop. If a tractor breaks down and remains idle during preparatory tillage operations, the damage is likely to be irreparable. The realisation of the great importance of promptness in servicing the farmer's wants has to be the cornerstone of successful rural marketing operations.

Appreciating the need for a well integrated programme, your Management set up last year the Agro-Industrial Products Division, the results of which have lived up to our expectations. In its very first year, the Division achieved a turnover of almost Rs 12 crores—an increase of 55% over the previous year's sales of the same products by other Divisions of the Company.

The products at present handled by this Division are tractors and implements, engines, pumps and generating sets and other engineering inputs for the farmer such as sprinkler irrigation and plant protection equipment. It is expected that new products will be added to these so as to have as complete a range as possible to cater to the agricultural sector.

I would now like to refer to some of the activities of other Divisions, which are supplementary to those of our Agro-Industrial Products Division and which are vital to the rural sector. The Mining Division and Works have developed entirely by their own efforts, a wholly indigenous water-well drill rig. This rig, fabricated in the Company's Thana Works, is the first of its kind ever to be built in India and is expected to find a large market in the country.

Our Air Conditioning and Refrigeration Division has utilised its considerable experience and skills in the cooling

field, to develop, in consultation with the Works, small and medium sized cold storage systems to suit the special needs of the farmer to store his produce until the next season. The Division is also marketing a walk-in-cooler which will be invaluable to the farmer, and Milk Chilling equipment has been installed in a number of places. All these new products help to augment the marketing of rural production.

For clearing, reclaiming, terracing and shaping of land, there is great need for heavy duty crawler tractors of which our Principals, International Harvester Company, are the foremost manufacturers in the world. The Earthmoving Division is doing everything possible to keep in good repair the existing International Harvester Crawler tractor population in India, by rendering maintenance service and keeping an adequate stock of spares. In view of the growing demand for additional tractors, plans have been submitted to the Government for progressive manufacture of this type of equipment in collaboration with International Harvester Company and International Tractor Company of India Limited.

The Electrical Division is hopeful of participating much more actively in rural electrification projects of which there will be a vast increase to match the revolution in the rural sector.

The Pharmaceuticals and Consumer Products Division is extending its already wide coverage of rural areas, so as to bring to the farmer's doorstep life saving drugs and packaged food stuffs. Plans are in hand to strengthen the activities of this Division considerably by adding new lines and products.

Although India has made great strides in the production of fertilisers in the country, there is still need for large scale imports of fertilisers in our drive for self sufficiency in food. The Chemicals Division has been responsible for bringing in substantial quantities of fertilisers from the biggest independent producer of Potassic and Phosphatic fertilisers in the world, International Minerals and Chemicals Corporation, U.S.A. This Division is also investigating the possibility of marketing pesticides developed by Rhone-Poulenc of France. Field trials so far conducted have proved encouraging and final results should be available by the middle of 1969. The Division is also the largest supplier of vitamin pre-mix to manufacturers of cattle and poultry feed in the organised sector and also to medium sized farms who make up their own feed. A number of new bakeries have been set up in the public sector in various parts of India—there are five such at the moment in production and three more under construction. All bread made in these bakeries are vitamin enriched and the Chemicals Division has helped considerably to develop a suitable pre-mix of which it is now the sole suppliers to these important public sector undertakings. The Division also supplies all the vitamins required by the Food Corporation of India for the manufacture of 'Balahar'—a high protein food for children.

At this stage, I think I should refer to our efforts in another field of endeavour—the search for new products and the building up of our own Research & Development Department. The considerable expertise that we have built up through our long experience in selling, servicing and installing all types of modern equipment is now being used in research and development work. I have already mentioned the water-well drill which we have developed ourselves in Thana. It was only possible to do this at short notice because of our familiar and intimate knowledge of handling of various kinds of mining equipment. Our pre-eminent position in air conditioning and refrigeration has helped in the development and marketing of a wider range of packaged units and cold storage systems. Development of new products to meet the growing requirements of our country will be very much in the scheme of our manufacturing activities in the coming years.

Towards the end of the Company's financial year, the Board accepted an offer which was made to them for taking over the Principal Shareholders' interest in National Electrical Industries Ltd., and its associated companies. The products manufactured by these Companies include transformers, motors, pumps and winding wires, and we have been appointed as Sole Distributors for all these products. These representations will be useful additions to the Electrical Division's trading programme. The Division will now be able to incorporate National Electrical Industries' transformers along with Tata-Merlin & Gerin's products in turnkey switchgear tenders without relying on outside parties for transformers.

The Company stepped up its export activities during the year, as will be evident from our order book of more than Rs 20 lakhs of goods in the few months that the newly formed International Operations Division has been functioning. In addition, it is believed that there is a worthwhile field for the export of technical know-how and expertise to neighbouring countries. This can be as technical managers/consultants or as partners in joint ventures. The International Operations Division is engaged actively in investigating the possibilities for business in certain Middle and Far Eastern countries.

In my statement last year I was glad to record that relations between the Management and Staff remained cordial in a year notable for political and industrial unrest. It was in recognition of this and of the general spirit of cooperation and help that the Staff displayed during that year that the Management offered an ex gratia additional payment to staff, over and above the statutory bonus payable under the Act. It was indeed regrettable that the Federation of our Unions did not accept this generous offer and instead resorted to such questionable tactics as go-slow, work-to-rule and disobedience of rules and regulations in support of their demand for an even higher payment. Inevitably this form of agitational approach led to cases of insubordination and other undesirable incidents.

This unhappy state of affairs continued for four and half months with consequent loss of business and the incurring of additional expenses for extraordinary measures that had to be taken to keep the wheels of business moving. At length the Federation accepted, with minor modifications, the same terms as were offered by the Management in the first place.

In regard to the future, there are signs of recovery in certain sectors of the economy, but the demand for engineering goods is a derived one and there is usually a time lag of 12 to 18 months between general recovery and the benefits accruing therefrom for the engineering industry. This year we expect an increase in turnover of our consumer products and medium engineering divisions, but this is high volume/low margin business. As far as our Heavy Engineering Divisions are concerned, much depends on the aggregate investment in the Public sector, details of which we shall know when the 4th Five Year Plan is published, we hope, by early this year.

I should like to express my appreciation to all levels of Management whether they be at Headquarters, in the Trading Divisions or in the territorial offices, for their loyalty, courage and hard work during a period of acute pressures. I am grateful, in particular, to my colleague Mr P. C. Cheryan, our Executive Director—Sales and Engineering, whose untiring efforts served as an inspiration for the special drive that was necessary during the closing months of the Company's financial year, after the bonus agitation, to produce the satisfactory results which were finally achieved.

Note: The above Statement is not a report of the proceedings of the Annual General Meeting which was held on the 18th February, 1969.

Company Affairs

ELECTRIC CONSTRUCTION

IN THE context of the green revolution that is sweeping all over the country the directors of Electric Construction and Equipment Company Ltd expect a surge in demand for agricultural implements and equipment in the coming year. Anticipating the demand the company has undertaken the manufacture of pumps and diesel engines to utilise a part of the idle capacity. The company's factory at Sonepat has already commenced production of transformers. It is now considering a scheme for the manufacture of GLS and fluorescent lamps. The company has also put up a good show in the field of exports. Sizable quantities of transformers, switchgears and meters have already been exported and it has now under execution substantial orders for lifts.

Although sales climbed up to Rs 6.89 crores in 1967-68 from Rs 6.65 crores in the earlier year, gross profit declined to Rs 39.02 lakhs, registering a fall of Rs 14.76 lakhs over 1966-67. Out of the gross profit, the directors have set apart a sum of Rs 18.69 lakhs to depreciation as against Rs 18.65 lakhs in the preceding year while a sum of Rs 1.60 lakhs was carried to development rebate reserve as compared to Rs 11.75 lakhs in the previous year. The allocation to taxation reserve was reduced by Rs 4.60 lakhs to Rs 1.50 lakhs leaving a net profit of Rs 17.23 lakhs as compared to Rs 17.28 lakhs a year ago. After transferring Rs 17.05 lakhs to general reserve, the balance of Rs 19,013 was carried forward to next year's accounts as against Rs 1,499 brought in. The equity dividend has been maintained at 10 per cent and it will be paid out of the general reserve.

The working of transformers and rotating machines division was affected by the uneconomic level of prices and stiff competition in the markets. Sales of switchgear also have not recorded an appreciable rise owing to paucity of demand. Sales of lifts, on the contrary, have shown an encouraging rise. The internal demand continues to be low due to recession but the company may still maintain its planned growth because of export orders. So far as house service meters are concerned, the market for the products got stabilised towards the close of 1967-68 and better results are expected in the current year.

INDIAN ALUMINIUM

The directors of Indian Aluminium Company Ltd have proposed a final dividend of 8.5 per cent for 1968. This together with the interim dividend of 5.5 per cent makes a total of 14 per cent on the higher capital as against 17.5 per cent paid in the previous year. The one-for-one rights shares issued early in 1968 are eligible for a proportionate dividend.

The company's sales dipped to Rs 21.09 crores during the year from Rs 21.58 crores in 1967 while gross profit dropped to Rs 6.13 crores, registering a fall of Rs 1.06 crores over the preceding year. Although new records were set up in production, the company's sales and profits have declined due to a surplus of aluminium in the home market following excessive imports in 1967 and the adverse effects of the additional excise duties levied in May 1967. The company's earnings have also been affected due to lower realisations on export sales of 3,456 tonnes of aluminium ingots and the increase in cost of raw materials.

Out of the gross profit, the directors have transferred a sum of Rs 1.99 crores to taxation reserve as compared to Rs 2.74 crores in the previous year while the appropriation to depreciation reserve was enhanced by Rs 0.02 crore to Rs 1.77 crores. The allocation to development rebate reserve was reduced by Rs 10.2 lakhs to Rs 10.8 lakhs, leaving a net profit of Rs 2.26 crores as compared to Rs 2.49 crores in 1967. The amount earmarked to general reserve amounted to Rs 0.91 crore as against Rs 1.29 crores in the earlier year.

The company's new smelter and alumina plants at Belgaum are expected to commence production on schedule. It has also made satisfactory progress in setting up a sheet-rolling mill in Bombay. The company is not experiencing any difficulty in finding the required funds for implementing the expansion schemes. Apart from credits obtained from the Export Credit Insurance Corporation, Canada, and the US Export-Import Bank, there was a rights issue of equity shares in April last year. Subsequently loan capital of Rs 5 crores in debentures was raised carrying an interest of 7.75 per cent. It is now expected that there will be a further issue of debentures in the current year. The company has already applied to the Controller of Capital Issues for permission to make an issue of Rs 7 crores in 7.75 per cent debenture stock 1980-84 at par by way of public issue. The public issue will be fully underwritten.

VOLTAS

Despite recessionary and other adverse conditions Voltas Ltd succeeded not only in maintaining its progressive rise in sales but was also able to retain its share of the market in almost all product lines. Turnover, in fact, established a new record at Rs 67.59 crores in 1967-68, recording an impressive rise of 14.5 per cent over the previous year. The engineering divisions accounted for 66 per cent and the non-engineering divisions consisting of pharmaceuticals and consumer products and chemicals for the remaining 34 per cent of the turnover for the year.

To match the revolution in the rural sector, the company is reorienting its market strategy and harnessing its management and technical skills so that it can play an important and dynamic role in serving rural areas as it has done for so many years in the urban and industrialised sectors. The pharmaceuticals and consumer products division is extending its already wide coverage of rural areas so as to bring to the farmer's footstep life-saving drugs and packaged foodstuffs. Plans are afoot to strengthen the activities of this division considerably by adding new lines and products. The electrical division is hopeful of participating in a big way in the rural electrification programmes which are expected to show a tremendous rise in the light of the dramatic developments that are taking place in the rural sector. Appreciating the need for a well integrated programme, the management created an agro-industrial products division last year. In its very first year, the division achieved a turnover of almost Rs 12 crores, an increase of 55 per cent over the previous year's sales of the same products by other divisions of the company. The products at present handled by this division are tractors and implements, engines, pumps and generating sets and other engineering inputs for the farmer such as sprinkler irrigation and plant protection equipment. New products will be added shortly to these so as to have as complete a range as possible to cater to the agricultural sector. These facts were highlighted by the Chairman and Chief Executive, Mr R. F. S. Talyarkhan, in the annual statement circulated to the shareholders of the company along with the balance sheet.

The other divisions of the company have also fared extremely well during the year. The mining division and works have developed entirely by their own efforts a wholly indigenous water-well drill rig. This rig, fabricated in the company's Thana works, is the first of its kind ever

to be built in the country and is expected to find a large market. The air-conditioning and refrigeration division has utilised its considerable experience and skills in the cooling field to develop small and medium-sized cold storage systems to suit the special needs of the farmer to store his produce until the next season. The division is also marketing a walk-in-cooler which will be invaluable to the farmer. Milk chilling equipment has been installed in a number of places. All these new products are helping the company to augment the marketing of rural production.

Concerted efforts are also being made by the research and development division of the company to develop new products. Water-well drill rig is a case in point. Other items are in the process of development and it is a matter of gratification that all such development work is being done without any foreign technical assistance.

The company is making a determined bid to enter into the field of exports and for this purpose a new division styled International Operations was set up during the year and it has shown great promise. It has already bagged firm orders for Rs 12 lakhs and orders worth Rs 8.5 lakhs are in advanced stages of finalisation. Apart from the export of products, the company is also investigating the possibility of exporting know-how in the capacity of technical consultants or managers as well as examining various proposals of joint ventures in certain countries.

Towards the end of August 1968, the board of directors decided to accept the offer received by it to acquire the principal shareholders' interest in, and to handle as sole distributors the products of a group of associated companies viz., National Electrical Industries Ltd, Crescent Iron and Steel Corporation Ltd, and Wandleside National Conductors Ltd. The range of products manufactured by these companies will supplement the company's electrical equipment distribution programme.

BENGAL PAPER

The directors of Bengal Paper Mill Company Ltd have decided to issue 25,000 cumulative redeemable preference shares of Rs 100 each carrying an interest of 9.3 per cent per annum and offer the same to the existing ordinary shareholders at par in the ratio of one share for every 50 equity shares held. These shares will be issued to those ordinary shareholders who are registered on March 8, 1969.

PERIYAR CHEMICALS

Periyar Chemicals Ltd, a company promoted by Messrs Aspinwall & Co. Ltd, is entering the capital market on February 25, 1969 with a public issue of Rs 12.97 lakhs. The subscription list will close on March 10 or earlier at the discretion of the directors but not before February 27.

The company has an authorised capital of Rs 40 lakhs and an issued and subscribed capital of Rs 10.04 lakhs. The paid-up capital of the company amounts to Rs 5.58 lakhs. The present issue is for Rs 12.97 lakhs consisting of 78,400 equity shares of Rs 10 each and 51,250 preference shares of Rs 10 each and they are offered at par for cash to the public for subscription. The Kerala State Industrial Development Corporation has underwritten equity shares worth Rs 4,87,500 and preference shares valued at Rs 212,500. The remaining 30,000 preference shares of Rs 10 each have been underwritten by the Industrial Credit and Investment Corporation of India. The promoters of the company have given their undertaking to the underwriters that in the event of the equity capital now offered to the public being undersubscribed, the promoters and their associates and friends will, without charging any underwriting commission and brokerage, take up the first 29,650 equity shares not subscribed for before calling upon the underwriters to subscribe for the balance.

The factory will be located in the Edayar Development Area in the Ernakulam district, Kerala state. The company proposes to manufacture formic acid, sodium sulphate and other chemicals in technical collaboration with Messrs Karl Fischer Apparate-u. Rohrleitungsbau of West Germany.

BANK OF MAHARASHTRA

The Bank of Maharashtra has reported excellent working results during the year ended December 31, 1968, with deposits, advances, investments and profits recording significant improvements over the previous year. After meeting all expenses and making the usual provisions including taxation, the bank has earned a substantially higher net profit of Rs 24.48 lakhs as compared to Rs 21 lakhs in 1967. The directors have proposed to maintain the equity dividend of 10 per cent for the year on the increased capital.

After adding the brought-in amount from the previous year's accounts to the net profit, the amount available for appropriations amounted to Rs 24.49 lakhs. Out of this, the directors have allocated Rs 4.90 lakhs to reserve fund as against Rs 4.20 lakhs in 1967 while the amount allotted to gratuity reserve was maintained at Rs 50,000. The amount set aside to dividend reserve was enhanced by Rs 2 lakhs to Rs 13.75 lakhs. The balance of Rs 5.34 lakhs, subject to payment of bonus to staff, has been carried forward.

The year 1968, as stated earlier, was one of all-round progress for the bank. During the year deposits leaped to Rs 73.10 crores from Rs 62.70 crores while advances jumped to Rs 49.70 crores from Rs 39.96 crores. Investments shot up to Rs 23.53 crores registering a marked improvement of Rs 1.89 crores over 1967. The number of branches increased from 119 to 137 while the number of deposit holders showed an encouraging rise from four lakhs to 4.65 lakhs. About 94 per cent of the bank's depositors, it is significant to note, are holding deposits below Rs 5,000 and it reflects the patronage it is receiving from the middle class investors.

ELECTRONICS AND COMPUTERS

Electronics and Computers (India) Ltd will be shortly approaching the capital market with a public issue of Rs 17 lakhs. The public issue will consist of 90,000 equity shares of Rs 10 each and 8,000 cumulative redeemable preference shares of Rs 100 each, carrying an interest of 9.5 per cent per annum. The issue is fully underwritten by financial institutions.

The company is holding an industrial licence for manufacturing 6.5 million silicon semi-conductor devices (transistors and diodes), 30,000 silicon expetaxial wafers and 10 million high stability precision resistors per annum. The project will be executed in two stages. Production of transistors will be taken up in the first stage and will be completed by the end of the current year. In the second stage, machinery will be fabricated for the production of these transistors which will take a year more for completion.

The capital cost of the first stage of the project is estimated at Rs 62.60 lakhs. It will be financed by the share capital of Rs 24.10 lakhs, a loan of Rs 17 lakhs from the ICICI, another loan of Rs 11.25 lakhs from the UP State Financial Corporation, deferred payments of Rs 2.25 lakhs and Rs 8 lakhs by way of bank borrowings. The factory will be located at Ghaziabad.

RECORDS AND STATISTICS

Reorganisation of the Textile Industry

THE FIRST report of the Textile Reorganisation Committee was presented to the Government of Gujarat in August 1968. The committee has further reviewed the working of the textile mills in Gujarat and in the country and has now finalised its second report which was presented to the Chief Minister of Gujarat on February 10.

(2) Like the first report, the second report of the committee is also unanimous. The committee, in its first report, had given some background of the textile industry and had made some recommendations. Therefore, the second report of the committee has to be read alongwith the first. A summary of the findings of the second report follows:

3. The cotton textile crisis has deepened to such an extent that about 90 cotton textile mills were lying closed at the end of December 1968. The figure includes mills which have been lying closed for years and have been scrapped or are being scrapped and whose number is around 26. Thus, in all, 90 mills out of 630 mills have been closed down. This accounts for about 2.5 million spindles and about 30,000 looms which have been rendered idle and which have caused loss of employment to over 100,000 workers in the country. Thus the loss to the country as a result of successive closures of mills is enormous.

4. To get out of the impasse, worst for the industry during its existence, the central government has enacted the Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act, 1968. The National Textile Corporation has started working. Textile corporations at the state level have also been set up in some states.

5. The above measures may relieve the situation to some extent. It has, however, neither been possible nor will it be possible for these corporations at the national and the state levels to be able to muster the necessary and adequate funds for the huge task of restarting and reviving such large number of closed units and to resuscitate other similarly situated mills.

Reserve Price

6. The Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act of 1968 provides that the closed units will be offered for sale at a reserved price and if nobody comes forward to purchase them at that price, the government or the National Textile Corporation or the state textile corporation will take over the unit at that price According to past experience, managements of standing with successful operation of units to their credit, having necessary management ability, have not been coming forward to take over closed or weak units even at nominal prices because of the present unfavourable provisions and certain technicalities of laws. These efforts, therefore, require to be supplemented by other means.

7. In the considered opinion of the committee, the revival of weak units and the modernisation and rehabilitation of these weak, or running of closed mills if possible and worthwhile could therefore be tackled in the following four ways:

(a) Some of the weak closed units can be taken over in an appropriate manner by either the National Textile Corporation or state textile corporations to be run and managed by them.

(b) Some weak units can be allowed to go into liquidation through the process of court proceedings and the assets of such units can be sold out in auction. One of the drawbacks of this process is that a very large number of creditors who belong to middle class families and who had sold stores, dyes, chemicals, cotton, machinery and other products to the weak units, tend to lose heavy amount of dues in case of liquidation. So also the unsecured creditors of weak units are put to total loss because even the most legitimate dues of workers (labour) and other secured debts can hardly be fully paid back from the proceeds of the auction leave alone the unsecured creditors. This payment of labour dues, provident fund, wages etc, could hardly be met from the sale of such units on liquidation. Again the liquidation proceedings take a very long time rendering labour unemployed till the mill is sold out and restarted after many months. Some time it is possible that such mills may not even be restarted and may disintegrate in course of time. Actually so far, no weak textile mills seem to have yet been restarted through liquidation process.

Process of Merger

(c) The process of merger would take much less time and would provide the weak unit **with a running efficient management with resources and expertise and marketing organisation so that the strong unit could practically run the weak unit without much dislocation of production and employment.** Also on the merger of the weak units, it will be possible for the strong units to negotiate payment to the creditors, both secured and unsecured in a phased manner so that none of these numerous parties get financially revived. The closure of the mills tend to hurt and ruin many of the creditors which in turn affects the economy of the country and shakes the confidence of the investors which is a very important element in entrepreneurship development of the country. In this report, we have elaborated the procedures and policies to make such mergers as an effective and speedier instruments for the revival and toning of the health of this vital basic industry.

(d) Whichever units out of the weak mills are not possible to be run because of the obsolete machinery or extremely heavy liabilities and therefore which cannot respond to treatment as in the alternative (a), (b) and (c) above will have to be scrapped. It will be futile to spend money, energy and time in trying to revive such old and useless units which should only be scrapped.

8. The scheme of merger of weak mills or weak industrial units with strong mill or strong industrial unit has been in vogue in many countries. The main objective behind the recommendation for mergers of weak units as contained in this report is that leading efficiently-managed textile mills in different areas of the country should be enabled to assist the government in the reconstruction and modernisation of the huge complex of textile industry in the country by such managements taking over some of the old and uneconomic mills which are otherwise capable of economic working through improved management, better financing and credit facilities more easily available to the well managed strong units and through rehabilitation and modernisation of these weak units.

9. The committee, after taking into consideration the overall situation, recommends as under: –

An act styled as the "Merger of Industrial Companies (Rehabilitation and Modernisation) Act of 1969" may be considered and enacted by Parliament in order to facilitate merger of the weak units of any industry with the help of strong units of that industry incorporating the following provisions in suitable legal clauses. The government may notify any in-

dustry under the Merger Act to which these provisions will apply.

10. There should be a merger commissioner appointed by the central government under the "Merger of Industrial Companies (Rehabilitation and Modernisation) Act of 1969" who will also be designated as the Additional Controller of Capital Issues under the Capital Issues Control Act, 1947, in the Department of Economic Affairs.

Direct merger of a running weak unit or/closed weak unit with a strong unit.

11 (a) Any weak textile mill which proposes to merge with a stronger mill, or any strong mill which seeks to take over a weak mill for purposes of modernisation, or if the central government or the state governments, in the public interest, so decide and are able to bring in or persuade a strong mill to take over a weak mill, may make an application to the merger commissioner, proposing a scheme of a reconstruction and reorganisation of the capital structure of the two mill companies concerned.

11. (b) The merger contemplated here, may take the form of any scheme of reconstruction, reorganisation, arrangement or compromise between two or more companies as envisaged in Sections 391 to 394 of the Companies Act 1956. The committee would recommend that in defining the term 'merger' in this Act, all the general tax concessions available to companies amalgamating within the scope of the definition used in Section 2(1A) of the Income-Tax Act, 1961 be made available along with the specific tax adjustments we have recommended in this report.

11. (c) The normal processes of the Company Law as laid down in sections 391 to 394 of the Companies Act will be followed up and the approval of the High Court will be taken.

Tax Adjustments

12. The committee has considered the question of certain tax (adjustments) which should be provided to the merger of the weak unit with the strong unit so as to enable the merger to be practicable and less burdensome to the strong unit. Briefly stated the tax (adjustments) would be as under:

(a) In such reorganisation of the capital structure, the income-tax written down value of the fixed assets of the weak unit will be written up to the extent of unabsorbed depreciation carried forward in the income-tax assessment of the company concerned as on the date of the merger.

(b) The scheme of amalgamation will also provide that the benefit of carrying forward losses (balance of losses as determined in the income-tax assessment of the relevant assessment year relating to the accounting year of the merger) of the weak unit will be eligible for set off in the assessment of the merged unit and be also available for carrying forward if the profits of the merged unit are not sufficient.

(c) In respect of the development rebate, it is already provided in the Income-Tax Act that the benefit of the development rebate will be available for the strong unit which amalgamates a weak unit with itself, subject to satisfying of certain conditions.

Merger of a running weak unit or a closed weak unit with a strong unit where as a first step the weak unit may be taken over as a subsidiary of the strong unit over a period before the actual merger is completed.

13 (a) It is also possible to conceive of a strong mill raising debentures which may be subscribed by financial institutions or by the National Textile Corporation or a state textile corporation and with the help of the funds so raised, take over the sick mill as its subsidiary, say, to the extent of 51 per cent to 100 per cent of the share capital. The shares may be taken over at some agreed price depending upon the fair value of the share of the sick mill and as may be approved by the merger commissioner. In this way, the benefits of taxation, unabsorbed depreciation, as recommended in para 11(a), 11(b) and 11(c) etc will also be continued to be available to the weak mill as it does not extinguish itself as an entity.

13 (b) If for any technical reason, an immediate merger of a weak unit with the strong unit is not feasible or considered desirable, the weak unit may be allowed to continue to operate as subsidiary of the strong unit till such time as it is necessary to enable both the units to complete the merger.

Debenture Loans

13 (c) After taking over the weak unit as a subsidiary of the strong unit, further investments may be made by the strong unit in the weak unit to make it a 100 per cent subsidiary, either by use of debenture loans from the financial institutions or from the National Textile Corporation or from the state textile corporation or by its internal resources. In such circumstances where the weak unit has become 100 per cent subsidiary of the strong unit, there is available at present a total exemption from capital gains tax when a subsidiary is merged with its parent company. Where, however, the weak unit has not become a 100 per cent subsidiary of the strong unit but continues to be only a subsidiary, the benefits of exemption from capital gains tax should be made available to the merger of the weak unit with the strong unit when the merger takes place.

13 (d) As far as the write-up of unabsorbed depreciation and the balance of carry forward losses of the weak unit are concerned, these should be allowed to the merging companies on the merger being completed to the extent they have not been absorbed by the profits earned by the weak unit so long as it was a subsidiary.

14. To implement the aforesaid recommendations, it will be necessary to make consequential amendments to section 34 and section 47 of the Indian Income-Tax Act, 1961. It will also be necessary to amend the Capital Issues Control Act, 1947, to enable the central government to authorise the merger commissioner to undertake the functions proposed to be assigned to him under the "Merger of Industrial Companies (Rehabilitation and Modernisation) Act, 1969".

15. **The merger commissioner may examine conditions of any particular industry under instructions from the government. If the government thinks that the conditions of the units in that industry require very large-size operations of modernisation in public interest and in the interest of employment and continuing production, the government may notify such industry under this Act and direct the merger commissioner accordingly. If on examination by the merger commissioner, government is satisfied that the provisions of the "Merger of Industrial Companies (Rehabilitation and Modernisation) Act", as recommended by the committee as above, should be made applicable to that particular industry, the government may notify such industry under the Act, in the official gazette.** On an industry being notified by the government the provisions of the "Merger of Industrial Companies (Rehabilitation and Modernisation) Act of 1969" will be made applicable to all the units of that particular industry.

16. On an application being made by a strong unit or a weak unit of the notified industry or by both to the merger commissioner or on the initiative of the merger commissioner himself, the merger commissioner will examine the proposal of merger and if he is satisfied that such merger is in public interest in order to reconstruct, rehabilitate or modernise the weak units which are otherwise facing closures or getting closed or are causing serious losses to the country, he may on a thorough examination approve the proposals of merger on such terms and conditions as he thinks appropriate or may dis-

approve any merger proposal if the merger commissioner is convinced that the proposal is not acceptable in public interest.

17. From the scheme of merger as detailed above, it is clear that no strong unit will try to utilise the above procedures for a merger in order merely to take benefit of the tax concessions and reliefs. The strong unit when it takes over the weak unit with the approval of the merger commissioner (who will thoroughly examine the proposal from all angles and who will approve any merger proposal only in public interest), there might be some lingering doubt that the strong unit may not keep the weak unit running and the very purpose of continuing employment and production may not therefore be realised. Therefore suitable provisions may be made, if thought necessary, in the new "Merger of Industrial Companies (Rehabilitation and Modernisation) Act, 1969" to the effect that the tax authorities will refuse to take into account any benefits due to the write-up of the unabsorbed depreciation or the development rebate or the carry forward of working losses in their assessment of the strong unit if any time they find that the weak unit is not being modernised or run in an adequate manner by the merger as per the objectives of the merger proposal in public interest.

General Mergers

18. The committee is of the clear view that it does not recommend mergers in general with the concessions and reliefs as recommended above. Those general mergers which are permissible under the Companies Act as at present can continue to operate under committee's recommendation of the mergers with certain concessions and incentives as contained in this report is only aimed at improving the state of health of such industries in which the national investment has been of a very high order and where due to several circumstances, a sizable number of units face economic difficulties and are facing the threat of closures and require immediate rehabilitation and modernisation in order to continue employment, production and growth potential.

19. The committee, in its first report, had made certain observations and recommendations dealing with the programme of rationalisation. Out of these, the following specific recommendation should be implemented to see that merged units are also put into proper condition:

"In order to encourage modernisation and also to lighten the burden of the otherwise expensive and high cost modernisation due to the prices of indigenous machinery being very high the mills will require some help to meet the capital cost of modernisation, which otherwise will become excessively burdensome. It is therefore recommended that the central government should give a refund of 10 per cent of the total value of the amount actually paid out by a mill in any year for the purchase of indigenous (and imported), machinery out of the excise duty amount payable by the company during that year. This concession should continue to the textile industry for sufficiently long period of time so that modernisation on a national level is satisfactorily implemented and completed. If and when the government wants to withdraw this concession, the machinery for the modernisation on the deferred payment basis by the company concerned in the previous years should continue to be entitled to such refunds till the deferred payments entered into as firm commitments are completed."

20. The committee also examined the social implications as well as the total outlay required for the mergers if they are allowed and undertaken. An average weak mill with 600 looms and 25,000 spindles, with a normal dye and bleach house, can be generally purchased at a price not exceeding Rs 30 lakhs per unit. Out of the 70 closed units, only 50 to 60 would be fit for rehabilitation and modernisation. The purchase value of these 60 units will not be more than about Rs 15 to 18 crores. The amalgamating strong units or groups will be at least 30 to 40 in number. **It is felt that no single group of entrepreneurs will be coming forward or may be permitted by the merger commissioner to take more than two to three weak units. Therefore, the merger would hardly add Rs 50 lakhs to Rs 1 crore to the assets of the strong units or groups. The proposal of merger would not lead to any concentration of wealth, much more so, when the chemical, petrochemical, fertiliser or engineering units of today have each**

assets over Rs 20 to 30 crores, which such private industries are already putting up in the country. Therefore, the merger of sick units with strong units of textile industry could not, by any stretch of imagination, be construed as leading to economic concentration or monopoly.

21. Taking into consideration the imperative need of a quick and rational reconstruction of the biggest industry of the nation, viz., the cotton textile industry, the committee is of the considered view that the defects of management of the weak mills can be remedied only by efficient management. In view of the paucity of available managerial talent which alone can rehabilitate the old sick units of the textile industries, the most practicable and desirable course would be to permit the merger of the weak units with the strong units so that the advantage of an efficient and successful skilled management of proven ability, which even under the present crisis are running their units well and satisfactorily would be the quickest available tool of managerial resources required for this enormous task of reconstruction.

22. The banks, financial institutions and the government will also find their money well safeguarded in the hands of capable management without exposing the community to any undue risk of resources to be invested for modernisation and reconstruction being wasted. It will also make for a bolder approach on the part of any financing institutions to extend their facilities to the well established units for the process of rehabilitation and reconstruction of the industry through the process of quick rehabilitation and modernisation of weak units.

Problem of Unemployment

23. Unemployment as a result of closure is causing severe strains on the labour force of the country particularly when additional employment is all the time needed for the growing population. By permitting the weak mills to die out for want of money, men and quick instruments and reconstructions, the nation stands to lose national income, employment and production in this basic essential industry which in turn gives a boost to other engineering, chemical and ancillary industries through its improved working. By putting these closed units in operation by rehabilitation, the cost of production will also go down, thus enabling the community to save for further capital formation. Any scarcity of cloth could be avoided and additional massive investment for establishing of new textile mills to clothe the growing population would also be reduced as a result of the above crash and sound programme of modernisation through mergers.

24. These conditions, modifications and concessions in the tax and other laws are necessary in order to make the merger practical and economic. As the situation is today, it may not be economical or practical for the strong mill to take over the weak unit because the weak unit is heavily indebted —both secured and unsecured debts of weak mill are of a large size. The machinery, equipment and buildings of the weak mills require large amount of new investment which remain non-profitable for some time because of the very high investment cost. Also payment of large debts to the creditors is involved.

25. When a strong unit takes over a weak unit under the Merger Act, the past accumulated resources and the future internally generated resources of the strong unit will be available to the merged unit to revive the weak unit. In certain circumstances, it is possible that the strong unit may also depend upon institutional finance to some extent but, it is anticipated that it will not be to the same extent of the resources that would be necessary, if the weak unit were to revive itself of its own accord without merger. Obviously the strong unit will have certain resources and a better cash flow to provide either the whole or a part of the medium term and long term investment required to be made in the weak unit for its rehabilitation and modernisation. Further the working capital requirements on hypothecation of stocks would be more easily available because of the credit facilities which the strong unit enjoys with the commercial banks.

26. Therefore, in the general case-study of mergers, to make a meaningful comparison we have assumed that as compared to a weak unit which will have to depend entirely on guarantees of the governments and will need all its finances from banks and financial institutions for heavy investments required for rehabilitation and modernisation and for working capital, the strong unit will have an advantage of a portion of the required finances being available from its own reserves and resources. As such the strong unit will have lesser expenses and burdens of payments of interest and financing charges as compared to the weak unit. In the case-study we have taken a minimum amount of such resources that a strong unit may generally command from its own resources, reserves and cash flows of working operations.

Development Allowance

27. To ensure that the suggested tax incentive is fully and properly utilised by the merger, the committee would recommend that on the analogy of the condition of maintaining a separate "Development Rebate Reserve" at 75 per cent and the development rebate to be eligible for the allowance in the assessment, the tax adjustments contemplated in the above recommendations may be deemed as a "development allowance", and to be eligible for the same, the strong unit should be required to maintain a separate "development allowance reserve under the Merger Act" equal to 100 per cent of the tax adjustments mentioned above. To the "development allowance reserve under the Merger Act" will be credited the aggregate of all tax concessions accruing to the merger as per the recommendations made in this report. In other words, this will consist of the saving of tax on (a) the unabsorbed depreciation due to the write-up of the assets of the weak unit to the extent of the unabsorbed depreciation carried forward in its accounts, (b) the losses carried forward, (c) the development rebate carried forward from the weak unit to the account of the merger, whether or not the profits of the weak unit were available for allowing the development rebate. This "development allowance reserve under the Merger Act" may be made ineligible for declaration of dividend and should be retained to be solely and exclusively utilised for revival of the weak unit. Dividends may be declared out of this reserve only five years after the weak unit has broken even. Also this will follow the analogy of the tax rebate at 10 per cent and 20 per cent respectively of the tax payable by all-India and state financial and development corporations if the corporations concerned create special reserves equal to 10 per cent or 20 per cent of the total income of the corporations under section 36(1) (viii) of the Income-Tax Act of 1961. The development allowance may be kept separately under the name of the "the development allowance reserves under the Merger of Companies (Rehabilitation and Modernisation) Act 1969" in the balance sheet of the merged unit until five years had elapsed after the weak unit has broken even as already mentioned above.

28. While on this, the committee would like to clarify a point. Under section 33 of the Income-Tax Act the development rebate reserve equal to 75 per rent of the development rebate is to be maintained by a company for a period of eight years in order to be eligible for the development rebate. It is possible that on the date of merger, the development rebate reserve of the weak unit might have exhausted, say, six years of the total period of eight years for which the development rebate reserve has to be maintained by the weak unit. In such circumstances, the amalgamated unit on receiving development rebate reserve on merger will be required to keep the development rebate reserve transferred

to it from the weak unit for the residual period of two years only. The Committee has recommended the retention of the tax incentive earned by the strong unit by the set off of the unabsorbed depreciation and the working losses, to be kept separately under the Head "development allowance reserve under the Merger Act" until a period of five years had elapsed after the weak unit has broken even. The committee would suggest that the development rebate reserve of the weak unit so taken over by the strong units be also kept along with the "development allowance reserve" mentioned above and be required to be maintained for the same period of which the "development allowance reserve" is required to be maintained. In other words, the development rebate reserve of the weak unit being taken over by the strong unit under section 33 of the Income-Tax Act be required to be maintained for the same period for which the "development allowance Reserve" equivalent to the tax incentive on unabsorbed depreciation and working losses received by the strong unit is required to be maintained, notwithstanding the length of the period of the "development rebate reserve" was maintained by the weak unit in its accounts prior to the merger.

29. The Manubhai Shah Committee is of the view that even if 50 per cent of the weak mills are made viable units in course of time by the process of merger and by the extension of these tax concessions, it would revive the general health of investment in textile industry, which will even attract investment in the industry thereby relieving government of its own commitments to take over weak mills and involve public funds in reviving them. Once the textile industry as a whole, is revived by reorganisation of the weak mills, it will give a fillip to various other engineering, chemical machinery manufacturing and ancillary industries which depend on textile industry and will provide business activity to the textile machinery manufacturing units built at heavy investment cost. The general investment climate as well as investment climate in so far as the textile industry is concerned, will also be revived and the premier industry of India can stand on its own footing. The financial institutions which have lately been taking a dim view that investment in textile industry is rather risky on account of their past experience with certain units will place greater reliance on the industry and this will help considerably the general health of the textile industry as a whole.

Obvious Danger

30. In the present depressed state of the textile industry of the country, the Manubhai Shah Committee feels that it may not be possible to attract or expect the strong units of the industry to come forward or initiate the process of merger of weak units even with the concessions and reliefs recommended as above. But the dangers before the country in allowing the biggest and the most important consumer industry of the country, namely, cotton textile to linger on and continue to remain depressed and for a very large number of units to die out are obvious. If these problems are left unattended to any longer, it will strike a severe blow to the entire economic growth of the country. It is therefore imperative for the central government and the state governments to use their good offices and also for the leading managements of the cotton textile industry to take an overall national view and put into effect this potent instrument of the merger to revitalise the whole industry. In the revival of the weak units, the country gets the benefits of continuing employment and production and the lifting of the depression over a vast economic area which in turn will give a shot-in-arm to the entire economy. It is therefore necessary for the government, industry and labour to co-operate together in the quick modernisation operations of this vast and vital industry of the nation. All these constituent elements and each one of them will have to co-operate and make any necessary adjustments so that the experiment of speedy revival of this industry could be made a success. Once this success is achieved the future approach to the modernisation of the entire economic apparatus of the country could be worked out from experience and with skill.

31. After first notifying the textile industry under the new Act and watching the working of the above scheme and procedure for merger of weaker units of the textile industry for a period, government may make the scheme applicable to any other notified industry if the central government so desire, in public interest, for the renovation and modernisation of any other industry in the country which may face similar problems as are now faced by the textile industry. This type of merger of a weak unit of an industry with strong one, as per the studies carried out by the Manubhai Shah Committee, could be a very powerful and useful instrument for removing obsolescence from many vital industries of the nation as well as implementing the much needed national exercise of speedy modernisation of industrial units in the vital sectors of our economy. In its first report the Manubhai Shah Committee has already emphasised the need of a national policy of modernisation. Coupled with the new proposed law "Merger of Industrial Companies (Rehabilitation & Modernisation) Act of 1969," this policy could be judiciously and selectively used for important industries and removal of the historical obsolescence of Indian economy.

Sample Cases

32. Sample cases of three closed mills in Gujarat state with their summary balance sheets and the financial and tax implications on merging each of these three units with a strong unit are also given in the report. The study of merger of a weak will with a strong mill was made to assess the possible loss of revenue to the government. An attempt has also been made in the report to examine the effect of a strong mill A taking over closed weak mills B, C or D. At the outset, we would like to observe that the three mills selected for taking over for merger are technically and economically viable units; they failed to perform well mainly because of management inefficiency and financial difficulties. It is therefore presumed that products of these mills (when merged and run) will enable the strong unit to earn profits at the rate of about two-third of the profits of the strong unit. This is not a guess as it is based on the facts that products of all these units can obtain fair prices in the market. Further, on modernisation at an early date, the weak mills will perform still better, yielding larger profits.

The study reveals the fact that if such mergers are permitted, the government may suffer a loss in corporation taxes in the initial period of one or two years but taking the overall view of five years, even as regards corporation taxes, government would gain in later years even from this source. More-

over, because of the revenues of excise duty (which are nil now as the weak mill is closed), the government may get in five years the following additional amounts:

If A is merged with B	Rs 190.54 lakhs
If A is merged with C	Rs 171.38 lakhs
If A is merged with D	Rs 225.60 lakhs

The above study gives a fair idea about the estimated receipt of the central government. It can be satisfactorily proved that there will be an overall gain to the government in all cases. There should not be any fear on the part of the government that such a scheme of merger will lead to reduction of revenues to the central government. On the contrary, the central government is bound to gain larger amounts in revenues if closed units are started under merger, apart from the other gains of production, employment and general boost to the national and regional economy by the restarting of the economic activity as a result of the working of the now closed mills.

33. Explanatory notes are also given in the report drawing attention of the authorities concerned to certain technical and legal aspects which may be considered and suitable provisions and explanations may be made in the bill for "Merger of Industrial Companies (Rehabilitation and Modernisation) Act of 1969", as may be accepted and considered necessary.

Losses to the Government

34. The committee also studied the losses to the central government and the state governments as a result of paying off the provident fund amounts accumulated and held in trust with the central government on behalf of the workers of the closed mills. In Gujarat state alone, the total amount of provident fund, comes to Rs 497.76 lakhs as paid off amount and Rs 302.22 lakhs as amounts still to be paid, making a total of Rs 798.98 lakhs. Thus, for these 18 closed mills in Gujarat, a total amount of over Rs 8 crores has been frittered away which was serving as a very useful amount of investment for the country. If we make a rough estimate of the total amount of provident fund due, including paid off amounts and the amounts to be paid, it is estimated that over Rs 35 crores to 40 crores will be the total amount for all the closed mills in the country. Such a heavy withdrawal of Rs 35 crores to 40 crores from the national exchequer, which were being utilised fruitfully for national development and which on payment to the workers are bound to peter out into the hands of the unemployed workers, is itself a serious loss to the nation. Even on this one account, the restarting of closed mills, which are capable of being worked usefully, is a national imperative.

35. It is true that due to the increasing production of synthetic fibres, man-made fibres and blended fibres and the cloth manufactured from all these fibres, the comparative per capita consumption of cotton fabrics is going down and will continue to decrease. However, all these fibres are mostly spun in the cotton textile mills and the cloth therefrom is mostly woven in the cotton textile mills. Also the population is ever increasing and the living standards of the population are bound to go up. Therefore, inevitably the total production of cotton textile fabrics will have to rise. **It will be therefore disastrous and suicidal to allow to disintegrate about 60 closed textile mills, which are otherwise workable and could be modernised to efficient production with comparatively small investment. Instead of spending huge amount of money on the establishment of new textile mills, and perpetuating economic distress in those areas where these textile mills are closed, it is imperative that early steps should be taken to revive these numerous closed units. It will be unpardonable not to take dynamic, active and early steps which might be practicable and beneficial to revive many of these closed units.**

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Budget at First Glance

EXPRESSING OUR first thoughts on the central budget for 1969-70, we may say that this journal has no serious grievance against Mr Morarji Desai's general performance and is inclined to view it with moderate satisfaction. The problem of resources revealed in the budget estimates is much on the lines anticipated in these columns as is the Finance Minister's strategy for dealing with it. The extent of his reliance on additional taxation has not come as a surprise nor has the broad pattern of his tax proposals. It should have been possible, perhaps, for Mr Desai to have taken a bolder view of the government's potential capacity for mobilising the voluntary savings of the community and his targets for market loans and small savings seem to err on the cautious side. There need be no finality, however, about these projections as of now and we would strongly urge on the Finance Minister the desirability of the government making a more expansive effort, particularly at raising market loans, in the course of the budget year. Any gains made here could help Mr Desai to reduce the reliance he plans to place on deficit financing. Incidentally we have a feeling that there is enough cushion in the expenditure estimates, particularly on capital account, for the residual budgetary gap indicated by Mr Desai to represent the outer limits of the deficit financing that may be needed in the new fiscal year.

It follows that no alarmist view need be taken of the role which is now being assigned to deficit financing. Given the present and prospective money-goods equation in the economy, a controlled increase in money supply is unlikely to bring into jeopardy the stabilization of the price level which is now being painfully accomplished. On the contrary, it may be tactically necessary to sustain producers' prices for agricultural commodities at a time when price incentives have got to be carefully nursed for the encouragement of capital-intensive farming. It seems to us that the Finance Minister may reasonably look forward to another year of disciplined price movements and to the extent that the increasing liquidity of the banking system could be pressed into service both for stepping up government borrowing and for liberalising credit facilities for agriculture, industry (including small industries) and exports, the economy is bound to be invigorated.

The Finance Minister has shown characteristic political courage in proposing excise duties on fertilizers and power-driven pumps. It is to be hoped that he will have the unreserved and unequivocal support of his colleagues in the cabinet and the Congress party in resisting the predictable opposition to his move both within the legislature and outside. We wish Mr Desai had been equally bold in coping with the survival problems of the export industries—jute and tea—and the beleagured cotton textile industry. The reliefs he has extended to them merely recognize their difficulties, without trying to resolve them effectively. This criticism applies too to his approach to the more general issue of speeding up industrial expansion by reviving saving and investment. Once again Mr Desai has attempted only half-hearted palliatives. His main budgetary limitations, of course, are the parlous finances of state governments and the public sector. Both are drags on any dynamic fiscal policy the central government may desire to contemplate. The situation is not eased by the compulsive growth of the Government of India's own spending on defence and general administration. So long as the nation's public finances continue to be a captive of these constraints, the public will be condemned to pay more and more taxes for less and less development financed from government revenue.

A Lawless Board

CERTAIN PRONOUNCEMENTS by the judiciary have provided ground for the fear that some of the powers delegated by Parliament to the executive under the Companies Act are coming to be habitually abused by the Government of India. Some time ago, the Supreme Court, passing judgment in the case of The Barium Chemicals Ltd and another v. the Company Law Board and others, had held that a particular exercise of discretionary power by the Board under s. 237(B) of the Companies Act, which authorises the government to have the affairs of a company investigated under certain circumstances, was not sustainable in law since the government, in the view of the Supreme Court, had failed to prove that reasonable circumstances had existed for the investigation to be ordered. Subsequently, there has been a series of court judgments striking down orders of investigation passed by the Company Law Board under s. 237(B) of the Companies Act. As a result, it has now become necessary for public opinion to concern itself with the issue whether it is at all desirable that the executive should be allowed to continue to exercise some of the discretionary powers invested in it by the Companies Act through the Company Law Board functioning on existing lines.

There is, for instance, the case of Rohtas Industries Ltd v. S. D. Agarwal and another which was decided by the Supreme Court in December, 1968. Section 237 of the Companies Act authorises the passing of an order of investigation if, in the opinion of the Company Law Board, there are circumstances suggesting that the persons concerned in the management of a company have been guilty of fraud, misfeasance or other misconducts towards the company and its members. In the case of Rohtas Industries Ltd v. S. D. Agarwal and others, the Supreme Court rejected the contention made on behalf of the government that since the exercise of power under this section was discretionary, the existence of circumstances on which was founded the opinion of the government that an investigation was necessary was not a question which could be subjected to a judicial review. In that case, Hegde J., with whom Sikri J. agreed, observed that it was clear that the legislature considered that an investigation into the affairs of a company was a very serious matter and that it should not be ordered except on good grounds. He also pointed out that the power of ordering investigation had been conferred on the central government in the faith that it would be exercised in a reasonable manner and that if the court came to the conclusion that no reasonable authority could have passed the impugned order on the material before it then the order was liable to be struck down. In the same case, Bachawat J. said that the law recognised certain well-recognised principles within which the discretionary power under s. 237(B) must be exercised. There must be a real exercise of this discretion. The authority must be exercised honestly and not for corrupt or ulterior purposes. The authority must form the requisite opinion honestly and after applying its mind to the relevant materials before it. It must act reasonably and not capriciously and arbitrarily. Because the Supreme Court was not satisfied that in this case the impugned order met the requirements laid by them, it allowed the appeal against the government's order which, consequently, was set aside.

A few days ago, the Calcutta High Court, consisting of the Chief Justice and Mr Justice B. C. Mitra, quashed the order of the central government, directing an investigation into the affairs of Sahu Jain Ltd under s. 237(B) of the Companies Act. Their Lordships observed that the charges of *mala fide*, unreasonable and arbitrary conduct made by Sahu Jain Ltd against the central government in the matter of the impugned order remained unanswered and unrefuted by it. They further pointed out that the central government failed to counter the challenge of the company that there was no material before the Company Law Board for passing an investigation order. The judgment added that the central government had declined to disclose any material which, *prima facie*, at any rate, could have justified the formation of the opinion as required by the statute for the purpose of passing such an order.

Some very forthright language was also employed by the Chief Justice and Mr Justice G. P. Singh of the Jabbalpore High Court, while setting aside the orders passed by the Company Law Board under s.237 (B) of the Companies Act, directing an investigation into the affairs of Messrs Jiyajeerao Cotton Mills Ltd, Gwalior. The court said:

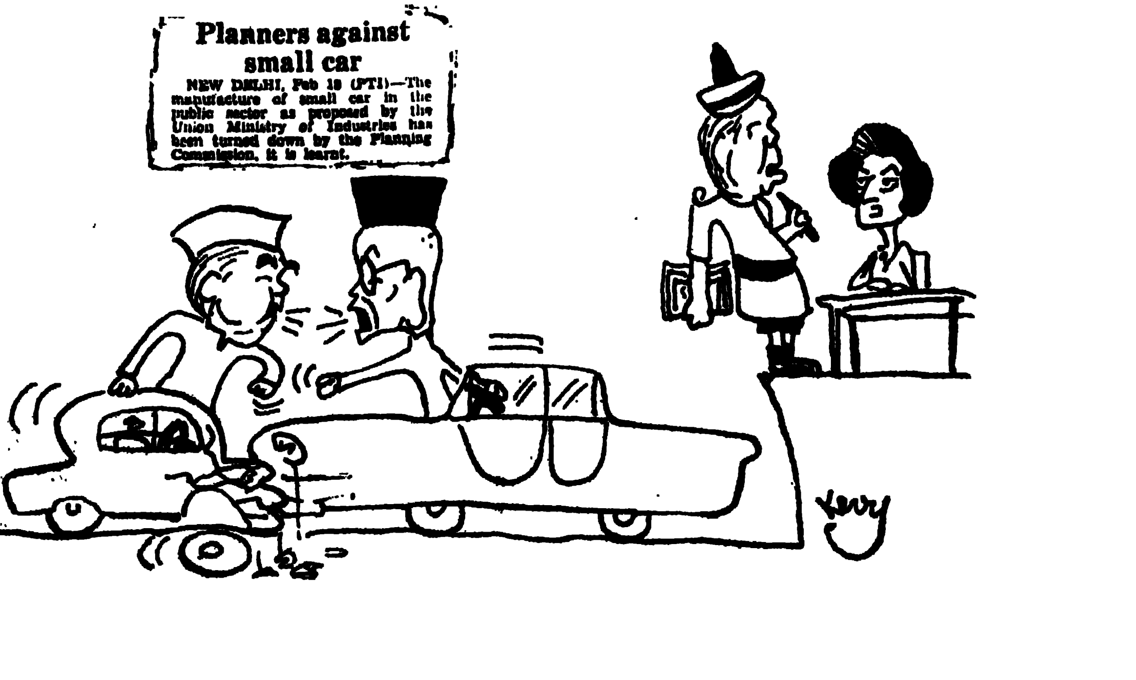
"In our judgment, the circumstances disclosed by the Company Law Board for making the impugned order in no way suggest that the persons concerned in the management of the affairs of the petitioner company have in connection therewith been guilty of fraud, misfeasance or other misconduct towards the company or its members. No reasonable persons or authority, much less an expert body like the Company Law Board, could have reasonably formed the opinion that those circumstances were so suggestive. The Board did not apply its mind to the materials before it and totally failed to take into account the very relevant material, namely, the dividend registers and the annual returns of shareholders, and if this material had been taken into consideration, then the Board could not have reasonably formed the opinion that it did. Again, in making the impugned order the Board was influenced by matters extraneous to section 237 (b) (ii), namely those referred to while dealing with the third

set of circumstances. It cannot, therefore, be held that the opinion formed by the Board in this case is in accordance with section 237 (b) (ii). The impugned order cannot be sustained and must be set aside."

It is significant that various ministers and ministries of the Government of India have always been keen on having the administration of the Companies Act entrusted to them. The Company Law Board itself has had a peripatetic existence. It was first with the Finance Ministry, from where it was shifted to the Commerce Ministry, only to return later to the Finance Ministry before being acquired by the Ministry of Industrial Development and Company Affairs, now redesignated as the Ministry of Industry, Internal Trade and Company Affairs. It is possible that the discretionary powers which the Companies Act vests in the government are a useful political prize appealing to the covetousness in politicians. The various judicial pronouncements of high authority to which we have briefly referred here make it disturbingly clear that the Company Law Board has been only too ready to exercise its discretionary powers under s. 237 of the Companies Act in a manner which has not been able to stand up under the scrutiny of the judiciary. It is, no doubt, some consolation that judicial protection is available to those harassed by the waywardness or wantonness of the executive. But company managements certainly have a right to be spared the harassment and expense of the litigation forced on them by acts of the executive which at the least are irresponsible and which at the worst could be politically or otherwise motivated.

It is public knowledge that some of the action taken by the executive under the Companies Act has been taken under pressures of a political nature objectionable in the extreme. It is perhaps less widely recognised that the discretionary powers delegated to the executive under the Companies Act, which the executive has shown a habit of exercising so arbitrarily can be employed for self-aggrandisement by politicians or political parties in power. There is a growing suspicion that ministers presiding over some of the economic ministries of the government have been functioning as strong-armed men of the ruling party in the collection of funds for political purposes. In this situation, the public has no guarantee that such unclean exercises of authority are not being resorted to for personal enrichment as well. As the learned judges had observed in the case of Rohtas Industries Ltd v. S. D. Agarwal and others, it is clear from the provisions contained in ss. 235 and 236 of the Companies Act that the legislature intended the investigation into the affairs of a company to be a serious matter not to be undertaken except on sufficient and satisfactory grounds. The way in which the power to investigate has been exercised has shown that the executive has failed to live up to the expectations of the legislature and that, by its conduct, it has betrayed the confidence which Parliament has reposed in it.

Surely, this situation cries out for correction if the government is not to be brought into contempt. We consider it essential that, as an immediate step, the administration of the investigatory provisions of the Companies Act should be transferred from the Ministry of Industry, Internal Trade and Company Affairs to that of the Ministry of Law. The various court judgments have placed it beyond doubt that the authority making an order under s.237 (B) should have a judicial temperament. It is possible that the judicial temperament can come only out of a judicial background. This is why we suggest that if the executive is to be trusted with the power in question, this power should at least be transferred to the Ministry of Law which, we presume, will be less ready than the Company Law Board, functioning under the various economic ministries, has been to pass orders the legality of which has so often been proved to be as non-existent as their morality. For a more permanent arrangement, it is for Parliament to consider whether or not the functions of the Company Law Board should be insulated from the play of politics by entrusting it to an autonomous institution, semi-judicial in character.



Time for Economic Statesmanship

THE PURELY preparatory work on the forthcoming central budget was probably finished well before the end of January this year. Subsequent exercises might have concerned themselves with determining the options available to the Finance Minister in the light of the broad requirements of the public exchequer and the objectives of economic policy which the government desires or hopes to reach through his fiscal and connected decisions. Quite probably, Mr Desai had made up his mind on the basic budgetary proposals some weeks before the people went to vote in the mid-term elections in four states. The results of those elections, however, have implications, both economic and political, which have a clear and close bearing on the kind of central budget the nation needs. It is, therefore, to be hoped that the budgetary decisions which Mr Desai might have taken before the ballot box had delivered its verdict in West Bengal, Bihar, Uttar Pradesh and Punjab are such that they are consistent with the requirements of the post-election situation and prospects. Should this, unfortunately, not be the case, it is very important indeed that Mr Desai should summon to his aid intellectual attitudes of flexibility, responsiveness and realism, besides the needed political courage, so that even at this late stage he may be able to bring his budgetary attitudes and notions in line with the imperatives of economic expansion dictated by the uncertain and possibly difficult political situation ahead.

In a leading article in *Eastern Economist* of February 14, it was pointed out that one of the principal ways in which the next central budget could serve the economy would be to refrain from doing anything to discourage the revival of constructive tendencies in the capital market and to attempt to frame a combination of fiscal and monetary policies which would further strengthen the climate for investment and assist the economy in availing itself of the emerging conditions of greater liquidity and thereby lay the foundations for a movement towards higher rates of voluntary savings and capital formation. It seems to us that the considerations in favour of this approach have been greatly strengthened by the results of the mid-term polls, particularly in West Bengal.

Take, for instance, the importance of the Finance Minister merely refraining from doing anything which may have an adverse impact on equity values. As indications of a United Front victory became more and more clear in West Bengal, there was naturally some nervousness in the stock exchanges and a setback to share values. Fortunately, this retreat did not develop into a rout, although the CPI(M) managed to increase its strength in the state legislature and thereby secure a dominant position in the coalition. Investors and operators in the stock exchanges, apparently, decided not to panic but be prepared to cross the bridge when they came to it. As a result, a major deterioration in share values was avoided and there has even been a moderate recovery. All the same, it is undeniable that the United Front victory in West Bengal has given a jolt to equity values and investor sentiments the effects of which are bound to linger close below the surface of the economy.

Even apart from West Bengal, the outcome of the mid-term elections does have certain disquieting implications. In Bihar no single political party has been able to secure a respectable number of seats in the legislature, let alone an absolute majority. As a result, even if a coalition government is formed in that state, it must clearly be a creature of opportunist or adventurist arrangements of political convenience. The post-election situation in Uttar Pradesh, no doubt, wears a more orderly aspect, but the polity of the state has been so grievously damaged by factional squabbles amongst politicians that no immediate optimism regarding its political future would be permissible. In Punjab, a regional party which ought to be capable of assuring stability of administration has come to power, but such comfort as may be derived from this thought has got to be tempered by apprehensions regarding the possibility of belligerent tendencies developing in the state government. Already notice has been served on the central government that the incoming ministry in Punjab would attempt to force the issue of the status of Chandigarh. The danger inhering in such bellicose attitude is that it might lead to an avoidable disturbance of the political equanimity of the Punjab-Haryana region. More generally speaking, the results of the mid-term polls in the four states taken together have certainly caused a decline in the prestige and weakened the political bases of the party ruling at the centre. This indicates a possibility that the central government may suffer a loss of authority and strength at a time when it cannot afford to invite this damage.

Political developments elsewhere in India too have not been very reassuring. The fact that a local political party of no particular significance could hold a city such as Bombay to ransom must be an eye-opener to those who do not readily see or wish to see the vulnerability of so much of the civilized or settled order of things which they tend to take for granted. It is not necessary to sound an alarmist note, but it does seem to be the case that the nation is now entering a critical cycle in its fortunes when a conscious new effort will have to be made by the people and responsible political parties to defend, consolidate and strengthen the political, economic and social gains which the nation was able to make in the momentum of the earlier years of its Independence.

Given this context, it is quite obvious that the central government will be extremely unwise to contemplate any proposals or measures of fiscal or other economic policies which may have the effect of adding to the tensions and apprehensions of the day. Even

if the political circumstances had been more favourable, the economy generally, and the capital market in particular, would not have been able to absorb any harsh or unwise fiscal or other impositions without suffering in its recovery or in its hopes of economic expansion. Now when the political climate has become hard and brittle and is inclined to be hostile, it is all the more important that the forthcoming central budget should adhere to the strictest principles of responsibility and realism and forward-looking economic statesmanship. Any false step at this hour could easily cause deep and extensive injury to the nation's economic health.

It would however not be enough for the forthcoming budget to be merely careful and circumspect. Vital though these qualities will be, something more would be clearly needed. Following the United Front victory in West Bengal, there have been suggestions in the press and elsewhere that there could well be a flight of capital from that state. There has also been a report in the press that British firms, with business interests in India, are thinking in terms, of re-examining their stakes in West Bengal. Much of this kind of writing or reporting belongs no doubt to the category of wild speculation. We certainly do not foresee any shift of existing industries from West Bengal to other parts of the country. While it is no doubt conceivable that, under certain circumstances, business interests in West Bengal may be forced to conclude that they cannot continue in business in the state, it is surely reasonable to assume that neither the United Front as a whole nor its leader, the Communist Party (Marxist), would deliberately seek to create a situation of this kind now or in the foreseeable future. It may be that there may come a time in the development of communist strategy when the deliberate creation of chaos may appeal to the CP-M or other Leftist forces as an appropriate programme for the furtherance of their aims. Nevertheless it is not exactly necessary for us to assume that this stage has been reached or is about to be reached. Not only for the time being but also for periods beyond, it may well be possible for industry and commerce in West Bengal to carry on business much "as usual".

All the same, it must be admitted that, while existing industries may not stage an exodus from West Bengal, there is bound to be a natural reluctance among entrepreneurs and investors to put money and enterprise into new industrial undertakings in West Bengal until the motives and methods of the United Front ministry could be properly assessed. The question arises in which other parts of India new capital investments are likely to take place more readily. The present position seems to be that some states seem to turn a more benevolent face towards the entrepreneur and investor than certain other states. Gujarat, Orissa, Andhra Pradesh and Mysore may perhaps be included in this friendly group. The state governments concerned have certainly shown a degree of concern for attracting industries to their respective areas which is highly commendable.

There is, however, this fact that some of the states have yet to build up an environment of basic facilities and economic overheads which is highly relevant to the siting and the starting of industries. These amenities, it is true, are bound to emerge where they are now absent or grow where they are now insufficient, but the process does take time and meanwhile it is important that the overall economic climate for investment and enterprise should be such that entrepreneurs and investors are more ready to discount risks and take chances. It should be possible for the central budget to contribute to the emergence of this climate. That it is necessary for it to do so does not admit of doubt. It follows that the budget proposals and connected measures should, besides refraining from prejudicing the climate for savings and investment, also seek to discharge more positive responsibilities. The central aim of the budget, in fact, should be economic growth, not as a goal fixed for some date in the future, but as a continuous process dating from today.

In the wake of the United Front victory in West Bengal, we have heard it suggested that the Congress party was reaping the first fruits of its failure to promote the industrialisation and the larger economic development of the nation in the most responsible, realistic and efficient manner open to it. The argument is that, if West Bengal has chosen to go for a ride on the back of the communist tiger, it is only because, for too long, it has been left without any way out of the jungle of chronic unemployment and mass poverty. This contention is accompanied by a warning to the central government that if it continues to ignore the urgency and intensity of the economic challenge (it will have to be prepared to lose more and more of the country to the forces of the extreme Left. In the month of the central budget these views have a timeliness and a topicality which Mr Desai will be ill-advised to ignore. He ought to realise that his responsibilities—and the responsibilities of the government of which he is Deputy Prime Minister—with regard to the budget which he is going to present to Parliament on February 28 are no longer narrowly economic, if they ever were. They have acquired a threateningly sharp political edge and they must therefore be read in terms of the Prime Minister's announced anxiety to save the future of the nation from the designs of the anti-democratic forces. The impending central budget, then, will have to satisfy the demands of political stability and social security in terms of a higher rate of economic growth without which there can be no safety for our political system nor survival of the democratic freedoms of our people. This is not the time for restrictive or merely regulatory fiscal policies which will deny the nation's economy its more rewarding and its more adventurous opportunities for growth. The hour has struck for economic statesmanship. It may not strike again.

The Green Signal

AFTER HAVING incurred losses in three consecutive years, the Railways have hoisted a green signal for 1969-70 by budgeting a marginal profit of Rs 1.92 crores. This has encouraged the minister in refraining from increasing fare or freight rates. The budget estimates for the current year had indicated a profit of Rs 100,000 but the revised estimates show a loss of Rs 10.01 crores despite the improvement in the demand for rail transport consequent upon the rise in production of both agriculture and industry. The cumulative loss of three years, 1966-67 to 1968-69, has depleted the revenue reserve fund which stood at Rs 63.20 crores in 1965-66 and is likely to be reduced to Rs 1.06 crores only in 1969-70. Similar is the fate of the development fund which has been completely exhausted.

It may be recalled that last year the Railway budget had increased both passenger fares and freight rates in an effort to raise an additional sum of Rs 28 crores. The gross traffic receipts for 1968-69, according to revised estimates, show that the Railway Ministry is likely to have more success than it had anticipated. The receipts are expected to be higher by Rs 9.6 crores than the budget estimates mostly because of the recovery in business activity. Unfortunately, all these gains are likely to be wiped out due to an increase of Rs 26 crores in the ordinary working expenses largely caused by the rise in the wage bill and the increased cost of fuel, repairs and maintenance.

The minister is perhaps justified in saying that "the entire increase in ordinary working expenses is due to post-budget developments over which the railways have had no control", but this attitude forces us to conclude that the small surplus in 1969-70 might be turned into a loss as in the current year. Unforeseen factors might raise their heads, but the Railways must learn to live within their means through more efficient handling of men and materials. As matters stand today, there is a possibility of costs going up in the coming year. Two facts need to be noted in this context. In the budget estimates for 1969-70, the minister has provided a sum of Rs 4.28 crores by way of increase in expenditure on fuel both because of the rise in the price of coal and for carrying the anticipated additional traffic but this sum is likely to prove insufficient for the purpose. The colliery owners have been demanding increased prices for coal and to this demand of theirs, the National Coal Development Corporation —a public sector undertaking—has also lent its support. The Railways will, it seems, have no option but to concede the demand of the colliery owners for a revision in coal prices. Second, the cost studies undertaken by the Railway Board are expected to bring about rationalisation of the fare and freight structure, and there is a high probability that on this score also the financial burdens of the Railways would increase.

The Railways should enforce a moratorium on fresh recruitment of staff so as to attain a reasonable degree of efficiency in operation, but all that the minister has assured is that the increase in staff would be proportionate to the increase in traffic offerings. More rigorous measures should be taken to plug leakages such as the loss caused by the menace of ticketless travelling. Also, the plans for expansion in capacity should keep in view the large unutilised capacity which the Railways possess. Taking 1965-66 as the base year, a rough estimate shows that more than 20 per cent capacity of the Railways is unutilised. It means that the Railways have at present capacity to carry additional load equivalent to 40 million tonnes. The planners have estimated that the total increase in freight traffic in the fourth five-year Plan period would be around 62 million tonnes; even if this estimate turns out to be correct—though some observers feel that this figure is on the high side—the Railways have already capacity to carry nearly two-thirds of this load. This should enable the Railways to make do with a smaller Plan.

The earnings from passenger traffic in the current year are expected to be lower than the budget figure of Rs 9.62 crores. The minister has offered the explanation that perhaps there was some diversion of short distance traffic from rail to road because of the increase in the minimum railway fare from 15 to 20 paise. This is not the whole truth. The fact is that road transport in many of the states is in a position to offer competition to the Railways by providing facilities both in regard to frequency of buses moving between different stations and the time involved in travelling. As such, the Railways are not likely to win back this traffic which has been lost to road transport. This also applies to the competition offered by the road carriers who

have snatched both short and long distance freight traffic from the Railways because of the inefficient way in which the Railways run their affairs. Even though the newly created marketing and sales organisation has started soliciting business and some reports have been received from businessmen that the Railways are now showing more business sense, the fact remains that road carriers have proved for some manufacturers, particularly of consumer goods, more dependable and efficient than the Railways. The community, it appears, is likely to benefit most if competition between the two modes of transport is encouraged to grow.

The Last Chance

THE SECOND of the three reports of the Gujarat Textile Reorganisation Committee (GTRC)—Manubhai Committee—has been released (see *Eastern Economist* dated February 21, Pp. 337-342) and the recommendations made therein are, as may be expected, a necessary corollary to the findings in the first report published early in August, 1968 (see *Eastern Economist* dated September 6, 1968, Pp. 490-491). It may be recalled that, on the ground that there could be no unanimity, the committee's first report did not advocate the scrapping of even sick cotton mills, although all the members of the committee had no doubt whatsoever that "......the very weak units, with a heavy backlog of modernisation and technical proficiency and inadequate management, are on the verge of precipice from which no step can save them." If these mills cannot be allowed to be scrapped, then the only way to save them is to provide them not only finance to carry on and modernise them, but help them with proper technical proficiency and adequate management, and this, the Manubhai Committee is convinced, can be ensured only by mergers of the weak mills with the stronger ones. According to it, there is no other alternative open to restore health to, and ensure modernisation of, this admittedly sick industry of the country. The GTRC is fully aware of the difficulties in the way, including the likely reluctance of many stronger units, but is not deterred by them. It has drawn pointed attention to the dangers to the country in allowing this industry, the biggest and the most important consumer industry of the country, to linger on and remain depressed and for a large number of units to die out. "If these problems are left unattended to for any longer", it warns, "it will strike a severe blow to the entire economic growth of the country."

There can be no doubt in anybody's mind about the present poor state of health of the cotton mill industry in our country. The worst year for the industry, however, was last year, when the situation deteriorated very much and also very fast. At the end of 1968, the Manubhai Committee has estimated, the total number of closed mills was about 90, including some 26 mills lying closed for many years and have been scrapped or are being scrapped. In terms of spindles, looms, production and employment, the respective figures (for the 84 mills actually covered by the report) are 2.5 million spindles, 30,000 looms, one million metres of cloth and 65,000 workers rendered idle. As the GTRC has described, this is the worst impasse that the industry has experienced during its existence of over 120 years. Indeed, according to the Manubhai Committee, a stage has been reached where it is not the textile industry alone but the entire economy of the country that is being imperilled, and to stop the rot, immediate remedial measures are necessary. In other words, whatever the Government of India has done so far to help the industry,—the enactment of the Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act, 1968 and the setting up of the National Textile Corporation, besides some state textile corporations as well—has failed to yield results.

In the opinion of the Manubhai Committee, "it is not possible for these corporations at national and state levels to be able to muster the necessary and adequate funds for the huge task of restarting and reviving such large numbers of closed units and to resuscitate other similarly situated mills." Notwithstanding the existence of the Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act of 1968, managements of standing with successful operations of textile units to their credit and necessary management ability have not been coming forward, and this, the committee notes, is because of the present unfavourable provisions and certain technicalities of laws. Hence, feels the Manubhai Committee, these efforts need to be supplemented by other means. "In the considered opinion of the committee," we are told, "the revival of weak units and their modernisation and rehabilitation, if possible and worthwhile, could be tackled in the following four ways":

1) Some of the weak closed units can be allowed to go into liquidation through the process of court proceedings and the assets of such units can be sold out in auction.

2) A weak unit may merge with a strong unit having efficient management, as also resources, expertise and marketing organisation.

3) Leading efficiently managed textile units could be enabled to assist the government on the reconstruction and modernisation of the huge complex of textile industry by such managements taking over some of the old and uneconomic units which are otherwise capable of economic working, through improved management, better financing and more easily available credit facilities.

4) Whichever units of weak mills are not possible to be run because of the obsolete machinery or extremely heavy liabilities and cannot, therefore,

respond to either liquidation or merger on the lines indicated above will have to be scrapped.

Although four ways are indicated thus, the GTRC has ere now ruled out scrapping and it is also not in favour of liquidation because of the long delay and losses to many that liquidation entails, so that what remains, in effect, is only mergers, voluntary or persuaded. Its conviction that there is no other effective alternative left to save the industry is evident from its fervent appeal, both to the central government and to the Gujarat government, to consider the merger recommendations *very carefully and expeditiously* and, what is more, *to take a decision* thereon promptly.

The Manubhai Committee has neatly outlined the steps necessary to give concrete shape to its recommendations. First, it wants the Government of India to enact a new legislation—"Merger of Industrial Companies (Rehabilitation and Modernisation) Act of 1969"—to facilitate mergers of weak units of any industry (not just cotton mill industry, be it noted) with its stronger counterparts. (The Act is to provide for the government notifying any industry to which it may want the provisions of this Act to apply. Then it wants a "merger commissioner", who will also be simultaneously designated as Additional Controller of Capital Issues under the Capital Issues Control Act, 1967, to be appointed by the central government. The report also discusses at great length how mergers could be effected and what form they could take, the legal complications involved, the relief to be afforded to the stronger units consequent to merger in respect of depreciation, development rebate, carry forward of losses, capital gains, etc., and the relevant amendments to the concerned laws. Amendments would be necessary, for example, to sections 34 and 47 of the Indian Income-Tax Act, 1961, and the Capital Issues Control Act 1967, to authorise the merger commissioner to undertake the functions proposed to be assigned to him under the committee's recommendations. The GTRC has also taken care to suggest that there should be suitable provisions in the new enactment to the effect that "the tax authorities will refuse to take into account any benefits due to the write-up of the unabsorbed depreciation or the development rebate or the carry forward of working losses in their assessment of the strong unit if any time they find that the weak unit is not being modernised or run in an adequate manner by the merger as per the objectives of the merger proposal in public interest." This is obviously a precaution against abuse by any strong unit trying to utilise the proposed procedure of mergers in order merely to take the benefit of the tax concessions and reliefs.

It is necessary to note here that the GTRC does not recommend the concessions it has suggested to all mergers in general. Its recommendation, it has been made quite clear, "is only aimed at improving the state of health of such industries in which the national investment has been of a very high order and where, due to several circumstances, a sizable number of units face economic difficulties and are facing the threat of closures and require immediate rehabilitation and modernisation in order to continue employment, production and growth potential." Needless to say, the description is tailor-made to fit the textile industry.

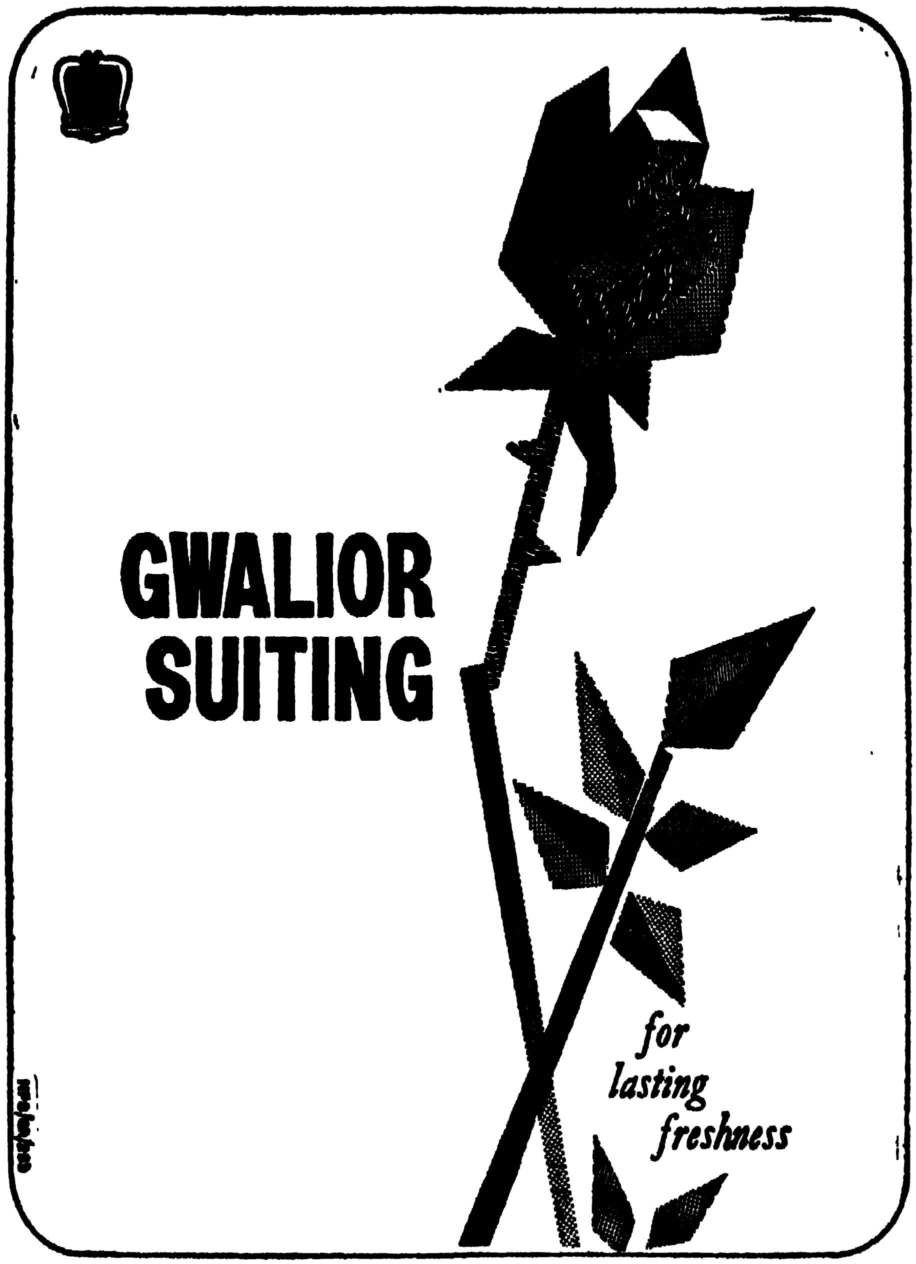
The Manubhai Committee has gone about its work in a thorough and systematic way. It has examined not only the legal but also the social and fiscal implications. For instance, it has lucidly explained how the merger of weak units with strong units of textile industry cannot be construed as leading to economic concentration or monopoly. And, so as not to inhibit mergers out of any apprehension on this scope, it has even gone to the extent of suggesting to the authorities that the merger or takeover of weak units by strong units of the industry should be notified under the "Merger Act" as specifically exempted from the provisions of the proposed Monopolies Law still on the legislative anvil. Again, the Manubhai Committee has made elaborate case studies to convince the authorities that, over a five-year period from the time a merger takes place, they would get more revenue out of income-tax and excise duty than they might lose by way of tax reliefs, development rebates, etc. More, the committee has spelt out the precise form the reliefs should take, as witness the development allowance reserve it has suggested under the proposed "Merger Act". In short, all that the government need do—of course, if it is convinced of the reasoning of the Manubhai Committee—is to frame legislation on the lines indicated in the second report and implement it without delay.

The GTRC takes a hopeful view of the future of the cotton mill industry in the country, provided prompt action is taken not to allow the closed mills to disintegrate but to revive and revivify them. This is preferable, it says, to spending huge amounts of money on the establishment of new textile mills. Indeed, "it will be unpardonable", according to the Manubhai Committee, "not to take dynamic, active and early steps which might be practical and beneficial to revive many of these closed units." Here is perhaps the last chance for the powers-that-be to come to the aid of this ailing industry.

GROW MORE

SAVE MORE

WORK MORE


GWALIOR
SUITING
for
lasting
freshness

As Government Sees It

THE EDITOR

> **This script was broadcast on February 21 and it is reproduced here by courtesy of AIR.**

THE PUBLICATION of the Economic Survey by the Economic Affairs Department of the Ministry of Finance of the Government of India a few days ahead of the presentation of the central budget is a recent practice. Its primary purpose is to lighten the chores of the Finance Minister on budget day by helping him to shorten Part-A of the budget speech by confining it to the salient points of the economic situation and the outlook for government finances having an immediate bearing on the budget proposals and decisions. Thus, a more or less detailed reporting of the experiences of the national economy during the current financial year and its expectations for the budget year which used to form Part-A of the budget speech, is now narrated separately and amplified into the Economic Survey.

It would not be fair, however, to characterise the Economic Survey as serving no other useful purpose. Its availability to the public some time ahead of the budget certainly assists in the formation of informed opinion on the problems of economic growth which the Finance Minister has to deal with in the budget. It helps to explain the nature of demands made on him and the means he may have at his disposal for satisfying those demands. It is thus part of the process of educating citizens to develop an intelligent interest in the economic affairs of the nation and the government's management of them. Drafted from the vantage point of the Finance Ministry which has a unique advantage in its access to the relevant data, the Economic Survey makes an effective addition to the literature on the nation's economic situation and prospects which tends to become available in some profusion at this time of the year.

Competent Survey

The Economic Survey for 1968-69, which Mr Morarji Desai presented to Parliament today (February 21) fulfils the purpose of this series with a competence which is reasonable but is not by any means remarkable. We had been treated to a more stimulating discussion at least on one previous occasion. It seems to me that our people have a right to expect really high standards of analysis and presentation in a document of this kind. Otherwise the Economic Survey is in danger of surrendering its opportunities for raising the standards of public discussion of the state of the national economy and the government's role in it.

The discussion in the Economic Survey revolves round the central theme that, while the current financial year has been a year of strengthening confidence in the reviving economy of the nation, the year 1969-70 may be looked forward to as a year of opportunities open to the government and the people for initiating a run of long-term growth. With this assessment there is no need to quarrel. The Economic Survey rightly recounts with due emphasis the emerging points of strength in the economy. The new agricultural strategy is beginning to pay off. The production of foodgrains has bounced out of the trough of two years of depressed harvests. Within the essential framework of favourable weather and rainfall conditions, human effort, geared to higher levels of farming technology, has been successful in spelling out a course for the nation's agriculture which should lead the people towards the goal of self-reliance in food and other agricultural production.

Compared to the low production of 1966-67, the output of foodgrains in 1967-68 showed a remarkable improvement of 28.8 per cent. In relation to this advance, the further growth of food production in 1968-69 has necessarily been far less striking. There have been, moreover, some deficits in the harvests of the kharif season. Fortunately, the outlook for rabi crops is quite bright. The sum of it all is that the gains recorded on the food front during 1967-68 are being consolidated in 1968-69, thereby laying down a stable base for the sustained progress of the new agricultural strategy in the next year and beyond. The benefits of this development have been promptly reflected in the improvement in the availability, the disappearance of local shortages and the declining prices of foodgrains. This has meant for the nation an important gain in economic stability—a development which has been reinforced by a recovery in industrial production. Thanks partly to the increased availability of major agricultural raw materials, such as fibres and oilseeds and partly to various measures taken by the government to assist production, particularly for export, industrial output seems likely to attain a growth of between five and six per cent over the calendar year 1968. Since, however, the growth rate had declined from over seven per cent in 1965 to a mere one per cent in 1966 and had fallen further in 1967, the ground retrieved in 1968 constitutes only a partial recovery. There are miles to go for the industrial economy before the tempo of growth experienced in the period 1961 to 1964, when the output of industries showed a steady growth of over eight per cent per year, is recaptured. Thanks to the increased flow into the economy of the products of agriculture or industry, a better balance has been reached between the physical availability of goods and services and the volume of money supply. As a result, inflationary pressures have been kept well under control and the economy has, in fact, been able to absorb the impact of a reduction in food subsidies, a certain measure of deficit financing and a modest growth of money supply without any adverse repercussions on the price level.

Improved Balance of Payments

The fact that imports have declined partly due to a variety of factors, such as higher agricultural production within the country, the time taken for the recovery of industry from the recession and the progress of import substitution, has also helped to counter the inflationary potential. With exports starting to grow while imports have declined, the balance of payments has improved. The foreign exchange reserves showed a net increase of $48 million in 1967-68 and they continued to increase over the next seven months of 1968-69. It should also be noted that a part of the improvement in the balance of payments has been due to the increased utilisation of foreign aid. In view of the difficulties anticipated with regard to the continuance of foreign aid, the progress in exports is all the more welcome as an extremely useful support to the balance of payments.

The Economic Survey takes a balanced view regarding the outlook for 1969-70. As has already been pointed out, the economy is in a more stable and stronger position now than it was at any time since 1964 to proceed with the planning of its developmnet. Hence the government's decision to get on with the fourth Plan after a break of three years. The nation may contemplate higher levels of investment without excessive fear of pressures on the price level. The green revolution is still in its early stages and the scope for it is vast. There is much unutilized capacity in existing industries over a wide range, while the growth of machine-building and industrial machinery industries within the country has made it less difficult for new industrial capacities to be established. All this means that the sustenance of a healthy equilibrium between the physical availability of goods and services in

the economy and the growth of money supply has now become a less exacting exercise for the government and the community.

It does not follow, however, that the tasks of rapid economic development have already become simpler. This is where the Economic Survey strikes an appropriate note of caution. I particularly appreciate the objectivity shown by this official document in this matter. Take, for instance, the subject of exports. The Economic Survey has wisely resisted the temptation to oversell the achievements of the government's export promotion policies. It is undoubtedly true that the government deserves considerable credit for what it has been able to do here. At the same time it is by no means less true that much remains to be done before progress in exports becomes self-sustaining. Although export gains have been registered over a wide range of industrial products, most of these gains have become possible because of the temporary slump in domestic demand. Again, the closure of the Suez Canal has been an adventitious aid to our export trades. It follows that much hard and imaginative effort through a partnership of government, industry and commerce is needed before the nation's export effort becomes wholly solvent and viable. In this connection, the Economic Survey also brings out the weak spots in the government's and the nation's export effort. The jute industry, which has been one of the main earners of foreign exchange, has been seeing more downs than ups since devaluation. There is the grave risk that it may finally find itself down and out. There are also other major industries, such as cotton textiles and tea, which need careful nursing in the period ahead. It is a good sign that official attitudes, as revealed in the Survey, show an awareness of these problems and the government's responsibility for finding solutions for them.

It may be tempting to draw inferences about the forthcoming central budget from the observations made in the Economic Survey. To surrender to it would be irresponsible. The Survey is not intended to aid and abet the public in anticipating the nature of the budget proposals. Speculation on the budget on the basis of the Economic Survey will, therefore, be unwise. What is, however, permissible is to indicate what the economy obviously needs in terms of fiscal and other economic policies for its further growth. It is in making this judgment that the discussion in the Economic Survey and other literature of this kind available to us at this time may be of legitimate assistance. Viewed thus, there is one observation in the Economic Survey which is of some significance. It points out that it will be necessary to correct the decline in the ratio of total domestic savings to national income from about 10 per cent in 1965-66 to around eight per cent in 1967-68. Few would question this prescription. What may be argued about, however, are the respective contributions which government savings and the voluntary savings of the community may be expected to make to the total. Predictably, the Economic Survey advocates "an increase in public savings." This, it considers "a necessary part of this process." It is to be hoped that, in attempting an increase in public savings, the central government as well as the state governments will keep in mind the importance of not arresting the generation of voluntary personal savings. There is no wisdom in losing on the roundabouts what is gained on the swings. If the aim is, as it should be, to maximise the aggregate volume of savings in the community, what is indicated is a strategy of economic statesmanship which would achieve the most productive combination of both categories of savings. It is right to expect that the forthcoming central budget will keep this end in view.

After the Elections

DR. A. APPADORAI

THE ELECTIONS on the whole passed off peacefully, more especially in West Bengal and Punjab; in Uttar Pradesh and Bihar too the general tenor was peaceful. It is true that, as the President pointed out in his address to the joint session of the two Houses of Parliament on February 17, disquieting reports have been received from certain areas that sections of citizens were subjected to pressures amounting to intimidation which prevented them from exercising their franchise. Stray incidents such as one candidate being shot at prior to the holding of elections, or ballot boxes being snatched away are also few and far between and need not cause us too much concern, for in a large country and with some 100 million voters entitled to vote, a few such minor incidents must not cause tragic surprise. However, the occurrence of even a few such incidents is a warning to the Election Commission and the state governments to exercise greater vigilance in "problem" areas and to take adequate precautions to prevent them.

An analysis of the election results should begin with a comparative study of the seats obtained by the several parties in the 1967 general election and in the mid-term elections. The table below gives the picture at a glance.

The figures show that:

i) The Congress had lost heavily in West Bengal (55 against 127), Punjab (38 against 47), and Bihar (188 against 128), while it has gained in Uttar Pradesh.

ii) The Jana Sangh has suffered major reverses. At the end of the general election in 1967, throughout northern India it was hailed as the "coming" party, as it had registered sweeping gains in several states. In the present elections, barring Bihar where it increased its strength by a bare eight, it lost heavily. In Uttar Pradesh, it won 48 seats against 98 in 1967; it reduced its strength from nine to eight in Punjab, and lost its solitary seat in West Bengal.

iii) The Swatantra party is now a negligible force in all

PARTY POSITIONS IN VIDHAN SABHAS

State	Seats		Congress		Jana Sangh		Swatantra		PSP		BKD		SSP		CPI		CP(M)		Other Leftist U.F. parties		Other parties		Independent	
	Total	Dec.	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69	'67	'69
Bihar	318	315	128	118	26	34	3	3	18	17	—	6	68	51	24	25	4	3	—	—	14	39	33	19
Punjab	104	103	47	38	9	8	—	1	—	1	—	—	1	2	5	3	3	2	—	—	29	44	10	4
U.P.	425	425	199	211	98	49	12	5	11	3	—	99	44	33	13	4	1	1	—	—	10	2	37	18
W. Bengal	280	280	127	55	1	—	1	—	7	5	—	—	7	9	16	30	43	80	47	91	—	8	31	2

the four states under survey; it has no seat in West Bengal and need not detain our attention.

iv) The PSP and the SSP too have lost considerably in the elections (only in West Bengal the SSP increased its strength from seven to nine); clearly, the passing away of Dr Ram Manohar Lohia has contributed to the decline of the SSP.

v) The Communist Party of India and CP(M) have substantially improved their position in West Bengal (110 against 59) though this improvement coincides with their decline in other states.

vi) The number of independent candidates who have been successful shows a commendable decline. In the four states only 43 have been returned against an earlier 111.

Among other notable features are the rise of the Akali Dal in Punjab as a political force—it secured 43 seats out of 104; the fair popularity of the BKD in Uttar Pradesh led by Mr Charan Singh who once led the now discredited SVD and the landslide victory of the United Front in West Bengal with 210 seats out of a total of 280 seats.

In what follows an attempt is made to analyse the short-term effects of the realignment of parties in the four states; these elections pose a number of long-term problems for the Indian political system and they will be studied in another article.

The most spectacular feature of the election results is the landslide victory of the United Front in West Bengal. Many political observers had foreseen that the United Front would win notwithstanding the complacent assertions of hopeful Congress leaders; but the remarkably large margin of victory was least expected, even by the members of the United Front. Let it be added here for the sake of clear understanding that the United Front of leftist parties includes 12 constituent units: the CPI (30), CP (M) (80), Bangla Congress (33), Forward Bloc (21), RSP (12), Socialist Unity Centre (7), Gorkha League (4), RCPI (2), Workers' Party (2), Forward Bloc Marxists (1) and UF supported Independents(9).

Significance of the Victory

What is the significance of this landslide victory? In the author's judgment, it has a six-fold significance. First, the victory was a clear indication that the electorate had recorded its resentment against the hasty action of the Governor, Mr Dharma Vira, in dismissing the UF government and installing a minority government. Clearly, the electorate would have liked more time to be given to the UF government to prove its mettle. Second, it is clear that politically-conscious opinion connected the Governor's action in dismissing the UF government with(a) central interference in state affairs and (b) a party government at the centre interfering with the government led by other parties in a state. This poses problems of harmonious relations between the centre and the states and needs all the goodwill that can be commanded by both sides. The fact that already a demand has been made for the removal of Mr Dharma Vira from the governorship shows how the wind blows.

Third, the electorate has clearly disapproved of defections. The very fact that Dr P.C. Ghosh had been defeated shows that the Congress-backed minority government did not have the approval of the people.

Fourth, the UF should be able to provide a stable government to West Bengal for five years; its massive victory shows that the constituents of the UF have an agreed programme.

Fifth, the formation of the UF and its victory suggests that at least in some states a coalition of parties is inevitable at the government level, if the essential political forces prevalent in our heterogeneous country are to find political expression.

Lastly, there is the economic aspect. Memories of United Front rule in 1967 for less than a year with its encouragement of labour strikes and gheraos and the fears of the "flight of industry" from Bengal have naturally given rise to uneasiness among industrialists; this uneasiness is understandable. But there are factors in the situation which, it is hoped, may turn the fears to be groundless. First, everyone learns from experience and the United Front, pledged to safeguard the interests of the common man, is likely to review the methods adopted by the earlier United Front and adopt more reasonable policies. The United Front knows that the "flight of industry" will mean unemployment and consequent suffering to the workers; besides, the "flight of industry", if it begins on any considerable scale, will have permanent consequences on the industrial position of Bengal which has some 25 per cent of the total industrial production of India. In adopting more reasonable policies, the UF will be encouraged also by its own strength and the knowledge of its stable position.

Wholesome Effect

The position in Punjab has now stabilised with the formation of the United Front government of the Akali Dal and the Jana Sangh. They have a working majority. Mr Gurnam Singh has done well to give two seats to the Jana Sangh in the cabinet, though the number of their elected members in the assembly is only eight. As far as one could see now, the coalition should provide communal unity, so essential in a border state such as Punjab. The well-publicised declaration of the Akali Dal leaders that not Punjab but India is the homeland of the Sikhs augurs well for the future. The decision reported to be taken by the Akali Dal and Jana Sangh leadership in Punjab that no defector would be rewarded with a ministerial office or with other allurements is also wholesome.

The results of the elections in Uttar Pradesh too suggest that stability may be achieved in that state. The association of a sufficient number of independent members with the Congress is, however, quite on the cards and, therefore, it seems reasonable to hope that a stable government will be formed in that state.

Thus in the three states of West Bengal, Punjab and Uttar Pradesh the immediate result of the mid-term elections is the formation of stable governments in them; the cost of the mid-term elections will, in retrospect, be justified in these states

It is in Bihar that the elections have not given a clear verdict. Only two parties have been returned in considerable numbers to justify their taking independent leadership in the formation of a ministry. There are, however, some features in the postures adopted by the parties that make the position difficult. The PSP is averse to sharing power with the Congress, the Jana Sangh or the CPI, though the Congress itself is not so anti-PSP; the Jana Sangh "cannot tolerate the CPI which is trying to step into the shoes of the erstwhile Muslim League of India"; the Jana Sangh might not agree with the declared SSP policy that the Congress should be kept out of any coalition government while the SSP might attempt to save the state from continued President's rule. In this situation of irreconcilable attitudes the possibility of a quick formation of a stable government seems remote. The parties concerned seem to forget a fundamental of democratic elections that elections are only a means to find out the people's will; an equally important consideration is, as they say in Britain, "His Majesty's Government must be carried on".

In our issue dated February 14, 1969, the special article entitled "The Mid-Term Elections" was by Dr A. Appadorai and not by our correspondent. The error is regretted—The Editor.

Rights and Responsibilities of Labour

S. P. CHOPRA

THE RESOLUTIONS passed at the Conference of Asian Labour Ministers held recently in the Capital indicated that there was increased scope for exchange of expertise and facilities among countries in this region; the conference, therefore, called upon the Asian countries "to make optimum utilisation of the existing resources" available within the region. Emphasis was put on the need for placing "restrictions on the right of employees to strike" in the case of essential industries and services. The International Labour Organisation (ILO) which will complete its first 50 years in the current year, was urged to review some of the existing conventions which were not consistent with the "needs and realities" of the Asian countries. The governments in these countries, it was pointed out, had to reconcile "the demands and interests of employers' and workers' organisations with those of the large mass of unorganised workers" and hence it was not possible for them to observe the standards fixed by the ILO in each and every case.

Mr Jaisukhlal Hathi, Labour Minister in the Government of India, set the tone of the conference by denouncing the "protective approach" adopted hitherto by Asian labour ministers which reduced them to the position of "protectors of the interests of labour." He advocated a positive policy of "promotion of production, employment and higher productivity by means of better utilisation of manpower." Referring to the right of labour to strike, which had the sanction of the international standards set by the ILO, he asked: "Can there be a state guarantee for such a right which operates against the health and stability of the state itself?" He quoted both Mahatma Gandhi and Jawaharlal Nehru to the effect that strikes and lockouts were not in tune with the present-day world and that the crux of the problem lay in finding proper machinery for resolving disputes so as to avoid any hold-up in production. It is in this context that one of the resolutions advocated restrictions on the right of employees to strike. It stated that, "in the case of essential industries and services, where it becomes absolutely necessary, in the interests of the community, to place restrictions on the right of employees to strike, machinery should be established for the prompt examination of the legitimate demands of the workers and for their just and fair settlement." This was, indeed, a bold but just approach, keeping in view the recent history of strikes in this country, particularly the September 1968 strike of the employees of the Government of India. The conference thus showed commendable courage in putting forward its views on this vital question.

Educating the Worker

What is more significant is that the conference put the rights of labour on par with its responsibilities. "The governments", said one of the resolutions, "should encourage and, if necessary, undertake in co-operation with workers' organisations, educational programmes to educate workers about rights, duties and responsibilities." Equal regard for rights and responsibilities constitutes the right approach in employer-employee relations, though labour unions in these countries have invariably laid stress on the rights of workers in total disregard of their duties. The same resolution sought the settlement of industrial disputes through bipartite or tripartite bodies, recommending at the same time that the parties should be encouraged "to provide in the agreements themselves, voluntary procedures for the settlement of differences in the interpretation or implementation of the agreements." In our country, tripartite wage boards have tried to sort out wage problems with the inclusion of a third party representing public interests. The tripartite bodies have an edge over bipartite bodies as they take into account the interests of the public as well.

The labour ministers are not the custodians of the rights and privileges of organised labour only. They have a duty to unorganised labour as well and it was in this context that the conference recommended the broadening of the trade union movements in Asian countries so that these classes of workers, including those in the agricultural sector, might receive the benefits of trade unionism. In our country, the manpower employed in agriculture is three times that engaged in industry and services. The distribution of manpower in most of the Asian countries is such that agriculture has a much bigger share than industry and services taken together and invariably, no labour unions exist among the agricultural workers.

The monetary increases in the wages of organised industrial workers have an unhealthy impact on the wages of workers not covered by unions through rises in prices all round and consequent reductions in the purchasing power of their wages. New demands for increase in wages and a spate of additional industrial disputes ensue. Moreover, increases in wages unconnected with productivity have serious consequences on other sectors of an economy and it is here that the conference made a useful contribution. It suggested the initiation of programmes to increase productivity of labour. In our country one of the objectives of the wage policy has been to encourage wage structures which are conducive to increase in productivity. The terms of reference of various wage boards appointed for different industries require the examination of possibility of extending the system of payment by results.

Technical Co-operation

No two countries in Asia are identically placed in regard to the state of development of their economies or the evolution of the trade union movements. At the same time the technical assistance received by countries in this region both from bilateral and multilateral sources falls far short of their needs. The consensus at the conference therefore was that the countries in this area could learn much from one another through technical co-operation. One of the resolutions, therefore, suggested that Asian countries should put the available facilities in manpower planning, labour welfare and administration, labour research, social security, improvement in productivity, workers' education, vocational training, development of small-scale industries and other related fields for the benefit of all the countries of the region. In other words, the accent was on the promotion of regional co-operation and the ILO was requested to render assistance for the attainment of goals set at this conference.

It may be recalled that the conference of Asian labour ministers held in the Philippines in December 1966 had supported the concept of an Asian Manpower Plan. Work on this plan is currently in progress in the ILO headquarters at Geneva and its regional office for Asia. The conference reiterated its faith in the plan and approved the designation of national focal points in order to facilitate rapid communication and close collaboration between the regional teams.

Keeping in view the conditions which prevail in some of the developing countries in Asia, the conference called for flexibility in the ILO's approach to various problems. Mr Hathi made a specific reference to the standards-setting activities of this world organisation which were difficult for all Asian countries to adopt as they appeared unreal in the context of the Asian realities. He expressed the hope that the recent policy of decentralisation of ILO activities would facilitate changes in its policy which would cater to the needs of different regions of the world. But this would be possible only if the countries in this area took increased interest in the activities of the ILO.

FROM THE PRESS GALLERY

Senseless Ritual

Our Parliamentary Correspondent

NEW DELHI, Tuesday:

ALTHOUGH THE union government had to face a no-confidence motion on the very second day of the current budget session of Parliament which opened on Monday, it was evident that at least some of the opposition groups were becoming tired of this ritual at the beginning of every session. The communist-SSP sponsored censure move this time failed to attract the support of the Swatantra, the Jana Sangh, the PSP and the DMK members at the admission stage; these groups thought, and rightly so, that the debate on the President's inaugural address to the joint session of the two Houses and the ministry-wise demands for grants offered enough opportunity for taking the government to task for its misdoings. In fact, the censure move could be admitted only after the two Muslim League members and two independents belatedly supported it to raise the affirmative vote to the barest minimum (50 votes). The disenchantment with the move among the opposition ranks was also clear when Mr S. N. Dwivedy (PSP) urged, to the discomfiture of the communist and SSP members, its quick disposal. Another fact worth noting about this motion was that contrary to the recent practice of not mentioning any specific grounds for the censure of the government, three specific issues were listed. These were (i) the regional tensions as symbolised by the emergence of Shiv Sena, (ii) the regional imbalances leading to untoward happenings as in Telengana, and (iii) the lack of popular backing for the union government as manifested by the recent mid-term elections.

The discussion on the motion indeed opened with a bang with the sponsor, Mr P. Ramamurthy (CPM) marshalling his facts with consummate skill. His sharp thrusts at the ruling party for encouraging parochial feelings, not doing much for the backward areas and on its reverses in the mid-term elections, especially in West Bengal, Bihar and Punjab, brought good dividend. When the motion was finally put to vote after discussion, only the Swatantra party abstained from voting. The Jana Sangh, the PSP and the DMK members lent their support to the motion, which, however, was thrown out by 213 : 83 votes.

Three Issues

The discussion on the censure move, spread over three days, was generally confined to the three specific issues on which it had been based. After the initial thrust, it became repetitive and dull despite the efforts of some members—Mr A. B. Vajpayee (JS), Mr George Fernandes (SSP), Mr N. Dandekar (Swatantra), Prof. Hiren Mukherjee (CPM), for instance—at lifting it to a high pedestal. Mr Dandekar had a broad swipe at the government's economic, social and foreign policies. The agricultural advance, he pointed out, had not been turned to advantage. Industrial stagnation was continuing in several key sectors. Politics had entered the fields of education, language and even arts and sports. Internationally, the Prime Minister, Mrs Indira Gandhi, he observed, had shown lack of courage by not speaking up for the Indians in Africa at the recent Commonwealth Prime Ministers' Conference. On top of it, he regretted, there was talk of settling the dispute with China on terms which fell short of the Colombo Plan proposals. Mr Vajpayee spoke with much heat on the discriminating treatment meted out to various sections of society within a single state. Specifically referring to Jammu and Kashmir, he observed that while Kashmir was getting the favourite son treatment, Jammu and Ladakh continued to be neglected. Several opposition members pleaded for the avoidance of friction between the centre and the states especially when some states had non-Congress governments.

The treasury benches hit back with equal force and stressed that the deplorable parochial tendencies in the country had to be curbed by co-operation among all the political parties. The Prime Minister called upon the opposition parties that they should not try to foment these tendencies. She also urged the non-Congress state governments to co-operate with the centre whose co-operation with states she promised without reservations. The activities of the Shiv Sena and such groups in other states were decried by the treasury benches in no equivocal terms. The charge that some members of the Congress had encouraged Shiv Sena was stoutly refuted, among others, by the Prime Minister and the Minister for Home Affairs, Mr Y. B. Chavan, whose name had been specifically mentioned by some opposition members as among those who had encouraged Shiv Sena in the initial stages. The treasury benches also vigorously defended the economic and foreign policies of the government. The efforts being made to reduce regional imbalances through planned development were detailed at some length.

Dull Affair

After the debate on the censure motion, the Lok Sabha's discussion on the President's address was only a dull affair, although economic issues were very much to the fore despite many members continuing to harp on the political situation in the country and the dangers from fascist organisations in which they included not only the various senas organised in different states but also the RSS. The Rajya Sabha debate, of course, rose to great heights quite frequently.

Sharing the President's gratification over the upswing in agricultural output which had resulted in increase in national income in 1967-68 by 9.1 per cent over the previous year, several members pleaded for the abolition of food zones and stressed the need for maintaining prices of farm products at remunerative levels. They also emphasised the need for ensuring adequate availability of farm inputs. The President's satisfaction at the striking improvement in the balance of payments and the revival of activity in a large segment of industry was also shared by many. But some members highlighted the plight of the industries still suffering from recession. Several members felt that licensing proceedures would have to be streamlined further and controls relaxed (or even abolished) if the process of industrial recovery was to be fostered. The President's references to foreign aid that it would be judiciously utilized and dependence on it would be progressively reduced with a view to making the country self-reliant were well received by both the Houses.

The harsh note which the President had sounded about the extremist political groups in the country which were out to change the social and political structure by violent means proved unpalatable to the groups concerned but the same feelings were expressed by the treasury benches and several other members. In this context the need to ameliorate the lot of the socially and economically backward sections of society as well as of various areas in the country was emphasised. Several members expressed concern at the many failings of our parliamentary system and urged the need for changing the Constitution. Mr M. C. Chagla, for instance, pleaded for the presidential system of government which, he pointed out, was as democratic as the present system but which would help in efficient administration and elimination of the present

practices of defections and corruption. There was also a demand for the setting up of an inter-state council, as provided in the Constitution, for settling disputes among states and with the centre. Mr Bhupesh Gupta (CPI) wanted that the West Bengal Governor, Mr Dharma Vira, should be recalled in the interest of the smooth functioning of the new United Front government there. He accused that Mr Dharma Vira had wrongfully dismissed the previous United Front government in West Bengal. Several members spoke of the specific problems of their states and urged larger allocation of funds for the development of agriculture or industry in their areas.

The government's desire to have friendly relations with all countries, including Pakistan and China, on the basis of absolute non-interference in each other's internal affairs and respect for each other's sovereignty and territorial integrity, reiterated by the President in his inaugural address, was welcomed. But the foreign policy of the government came in for sharp attack on the familiar grounds.

Fighting Regionalism

Replying to the Rajya Sabha's debate, the Prime Minister called for co-operation from all parties for fighting regionalism and casteism. She turned down the plea for the setting up of the inter-state Council by pointing out that there were already several such forums. These included the National Development Council, the Chief Ministers' conferences and the zonal councils. The Prime Minister preferred not to answer Mr Bhupesh Gupta's demand for the recall of the West Bengal Governor. She also did not share Mr Chagla's pessimistic view about the functioning of the parliamentary system in the country. Intervening in the debate in the Lok Sabha, the Education Minister, Dr V. K. R. V. Rao, hinted that he would take up with the Planning Commission the question of higher allocation for education than the Rs 803 crores provided in the draft fourth Plan.

The presentation of a surplus railway budget for the first time in four years was hailed in the lobbies although some members felt that there was need for putting the railway finances on a sound footing by economising on expenditure and checking of leakage of revenue through ticketless travel. The delays in the running of trains also came in for a good deal of criticism.

The discussion on the PSP member Mr Nath Pai's Constitution Amendment Bill which seeks to empower Parliament to amend even the fundamental rights enshrined in the Constitution could not be taken up this week during the time allotted for private members' bills. The attempt of the government (which has now owned the bill) to refer it to a new select committee on the ground that the bill as it had emerged from the select committee during last session, suffered from some drawbacks, also could not succeed. Mr Madhu Limaye (SSP) outmanoeuvred the Law Minister in this attempt by asking for suspension of the discussion on it pending allotment of time for this debate out of the government's legislative time.

Master Plan for Electrification

In its 70th report presented to Parliament this week, the Estimates Committee has called upon the Railway Ministry to prepare a master plan for the electrification of railways on a long-term basis so that a clear picture could emerge of the magnitude of the work involved. The committee has noted with regret that except in one case, the Railway's electrification programmes had been carried forward beyond the target dates originally fixed for their completion right since the second Plan. It has urged that the time schedules should be strictly adhered to in the interest of containing costs. The Railway Ministry has been further advised that only those schemes of electrification should be taken up which ensure a return of seven per cent on the capital outlay. As regards the development of metropolitan railways, the committee has advised the Railway Board that it should maintain a close liaison with the Planning Commission's study team on metropolitan transport which is currently studying the problems of the Calcutta area.

Four important reports were presented to Parliament this week by the Public Accounts Committee (PAC). In its 40th report, the PAC has expressed the view that the request of cable manufacturers for grant of permission to them for the production of telephone cables by utilising their spare capacity should be expeditiously looked into. It has also deplored in this report a number of malpractices in the administration of the scheme of reimbursement of medical expenses to the employees of the Post and Telegraph Department and has pointed out that several of these employees earned by way of medical charges, many times more than their salaries. In the 43rd report, the PAC has reiterated its request to the government to critically re-examine the policy of state trading in food in view of the heavy losses suffered so far; these losses in 1966-67, it says, amounted to as much as Rs 94.47 crores—Rs 23.18 crores on wheat, Rs 34.29 crores on rice and Rs 23.16

crores on other grains. With a view to minimising the loss through state trading, the committee has drawn pointed attention to the storage problem and movement of grains. The heavy demurrage paid on imported food shipments has also been scathingly criticised. The functioning of the Border Roads Organisation (BRO) has come in for a sharp attack at the hands of the PAC in its 42nd report. The committee has pointed out that the BRO has not tackled the problem of repairs of machinery, equipment and vehicles in a business-like manner. The PAC feels that the BRO should enlist the assistance of the army base workshops to carry out repairs to machinery and equipment. In its 39th report, the PAC has noted that out of the 16 showrooms opened abroad by the Commerce Ministry between 1957-58 and 1966-67, seven had to be closed down after spending Rs 23 lakhs on them. The Committee has suggested that these showrooms should be handed over to the State Trading Corporation.

Question Hour

Fourth Plan: The Prime Minister, Mrs Indira Gandhi, told the Rajya Sabha on February 20 that the final decisions on the size and content of the fourth Plan of each state would be taken after the overall Plan had been approved by the National Development Council. She admitted that there were gaps between the allocations desired by states and those which according to the Planning Commission were likely to be available. The question of resources to be mobilised by the central and state governments, she said, was under consideration. The Prime Minister denied that there was any proposal to give statutory status to the Planning Commission.

Indo-Nepal Ventures: The Minister for External Affairs, Mr Dinesh Singh, told the Rajya Sabha on February 20 that the government was considering setting up of Indo-Nepal joint industrial ventures in the Himalayan kingdom. India was entering a phase of closer collaboration with Nepal. Till the end of March 1968, the Government of India had spent Rs 49.06 crores on projects in Nepal. No impediments were known to have been put by the Nepal government in the way of the Indian-aided projects.

Foreign Private Investments: The Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, told the Rajya Sabha on February 18 that while foreign private investments were welcome in India, they had to be on a selective basis and in conformity with the development objectives of the country. While no "special" efforts were being made to attract foreign private investments, steps were being taken to make the potential investors understand the situation in India and the conditions under which investments would be welcome. Steps were also being taken to countract wrong impressions created by some people about the government's policies. The Deputy Prime Minister assured the House that the government would not allow any interference by foreign investors in the country's internal or external policies.

Industrial Licensing: The Minister for Industrial Development, Internal Trade and Company Affairs, Mr Fakhruddin Ali Ahmed, denied in the Lok Sabha on February 18 that governmental procedures were responsible for delays in sanctioning industrial licences. The licensing procedures, he pointed out, had been streamlined. If the Minister did not dispose of an application within six months, it would go before the Investment Board and if the board also failed to give its decision within six months, it would go to the cabinet. The delays in sanctioning these licences, Mr Ahmed added, were due to lack of provision for finances by promoters. Referring to the Tata's fertilizer project, the small car project and the Korba thermal station, Mr Ahmed said that the delays in the clearance of these schemes were not due to the decision-making machinery of the government being cumbersome and slow. These projects involved heavy investment and had far reaching implications. So they required a very close examination by the government before final decisions were taken on them.

Fertilizer Imports: The Minister for Foreign Trade and Supply, Mr B. R. Bhagat, told the Rajya Sabha on February 18 that the prices to be paid for fertilizers as a result of the recent negotiations with the suppliers of the United Kingdom and western Europe, would be lower than those paid in 1966 and 1967.

Tea Corporation: Mr Bhagat told the Lok Sabha on February 18 that the Assam government had suggested the setting up of a tea corporation on the lines of the National Textile Corporation for taking over closed tea gardens. The suggestion was being looked into.

EASTERN ECONOMIST

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I, Ram Nandan Sinha, hereby declare that the particulars given above are true to the best of my knowledge and belief.

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WINDOW ON THE WORLD

Happy Switzerland!

JOSSLEYN HENNESSY

I

WEALTH WITH SCANT RESOURCES

LONDON:

I'LL BET you can't tell me the name of the President of Switzerland, and it's not impossible that you will share this ignorance with a majority of the Swiss. As far as I can make out he is, in fact, Dr Willy Spuhler.

The Swiss President's anonymity is symbolic. For, by dint of minding their own business, hard work, and the mutual tolerance among the six million inhabitants speaking four different languages (French, German, Italian and Romansh), the Swiss enjoy the highest standard of living in Europe. Switzerland is about the same size as Kerala and has few natural resources. The GNP per head in 1967 was $2,623. The annual growth rate in 1963-67 averaged nearly four per cent.

Apart from a few valleys, economic activity is possible only on the central plateau. Because minerals, agricultural land, and raw materials are scarce, the Swiss depend on foreign supplies, so that foreign trade is literally a vital necessity. Agriculture contributes seven per cent to GNP and employs less than 10 per cent of the labour force, which is, incidentally, a highly uneconomic percentage for so small a contribution to GNP.

Characterised by intensive specialisation and technicality, Swiss industry is largely directed to exports, particularly in machinery, watches and other precision instruments, chemicals, and some textiles. Heavy industry is small.

Industrial progress had been rapid: the index rose 58 per cent between 1958 and 1966, a rate exceeded only by Italy, the Netherlands and West Germany. This increase caused labour shortages which have been met by recruiting foreigners who now make up more than one-third of industrial workers.

Hydro Power

Owing to its mountains and abundant rainfall, hydro-electric power contributes 17 per cent of power requirements. Production, which was 10,000 million kWh in 1947, attained 30,000 million kWh in 1967, but possibilities of further increases are now small, so that nuclear stations are being built. Switzerland needs to import most of its power: 67 per cent in the form of oil and 11 per cent in coal.

The Swiss have wisely refrained from the international prestige race to build great iron and steel works, preferring to import from West Germany and France. The same applies to non-ferrous metals. Only aluminium, the manufacture of which can be made to rely on electric current, has led to a highly developed metallurgical industry.

Mechanical and electrical engineering holds an increasinly important place in industry, constituting no less than 28 per cent of total exports.

Switzerland's precision instruments—optics, photographic, medical, and office euipment—and watches and clocks, have a world reputation. They are natural outlets for the Swiss economy because they use little raw material and require skilled labour.

Characteristic of watch making is the high degree of its division of labour and specialisation in spare parts, so that firms are numerous and most are small. Ten years ago the output of the Swiss watch industry was bigger than those of all other countries put together and, despite steady growth in other countries, the industry still leads the world with 42 per cent of world production, but its share in total Swiss exports has fallen from 20 to 14 per cent. The Swiss are now encountering strong competition, particularly in cheap watches. Their quality watches continue to lead the world.

The hotel industry has been one of Switzerland's traditional activities since the British invented winter sports a century ago. Switzerland's magnificent mountains and picturesque valleys offer special attractions to tourists, of which the Swiss have made the most by building modern hotels and well-equipped recreational centres, often at high altitudes, with well planned communications. Swiss hotels provide 240,000 beds, occupied in 1966 by nearly six million tourists, representing 18.8 million overnight bookings compared with seven million in 1950. Tourists are mostly German, French, and British. Tourist receipts in 1966 at S. frcs. 1,600 million covered more than half the commercial deficit.

II

LIBERAL ECONOMIC RESOURCES

Switzerland is, par excellence, the land of traditional liberal economic policies. Although, as elsewhere, the role of the state is increasing, its interventions remain outstandingly less than in most Western countries. There is no planning of any kind, even "indicative". In the monetary sphere, the National Bank refrains, in general, from issuing orders and proceeds by way of agreement with the private banks. It is only since 1964 that agreement has been reinforced by (strictly provisional) measures to contain inflation.

Since the war, the federal budget has generally been in surplus and this has contributed to the remarkable stability of the Swiss franc, whose purchasing power depreciated by less than 1.5 per cent up to 1962.

Switzerland's tax system reflects its liberal principles. Taxation takes a mere 19 per cent of GNP, compared with 31 per cent in France and 30.2 per cent in the UK. The tax system is complicated because it is divided between the federation, the cantons, and the township-districts. The federation levies a progressive income-tax for national defence at a maximum rate of eight per cent, but its chief sources of revenue are the turnover tax and customs duties. Most cantons tax incomes, but the burden is moderate. In Geneva, for example, the total of federal and cantonal taxes reaches a maximum of 26 per cent of the earned income of a married man with no children.

Switzerland's prosperity depends on its foreign trade. In 1966, imports and exports represented 26.4 and 22.1 per cent respectively of GNP. Only Belgium, the Netherlands, and Denmark recorded higher percentages.

Switzerland is not protectionist. Duties are based on specific (not ad valorem) tariffs of about five per cent. Quotas are unknown save for certain agricultural imports.

Finished and semi-finished products account for 60 per cent of imports (compared with 40 per cent prewar) because Swiss indutry is so specialised that many sectors cannot satisfy domestic demand, which rises steadily with the standard of living. The same products account for as much as 90 per

cent of exports, of which the metal processing and chemical industries alone make up 75 per cent.

. The balance of trade is usually in deficit. As with all industrial countries, the deficit is greater when the business cycle rises. Thus, in recent years, while Swiss industrial activity rose 50 per cent, the trade deficit rose higher still. The ratio of cover of imports by exports, over 90 per cent in 1958, fell to 74 per cent in 1964. Since then restrictions on domestic demand have decreased imports and raised the ratio to 83.5 per cent.

Attraction to Foreign Capital

The balance of payments, on the other hand, is usually in surplus, thanks to the service industries (particularly tourism) and to capital inflows. Switzerland's political and monetary stability, and liberal economic policies, have enabled her to become one of the world's greatest financial centres. Apart from the efficiency of its normal banking services, Switzerland has always attracted funds from abroad in times of political unrest or monetary uncertainty. This, for example, partly explains the large inflow of capital at the time of the Middle East crisis in the hot weather of 1967. Switzerland's attractiveness as a refuge for foreign investors, worried by the vagaries of their own governmental policies, causes problems, chiefly because the Swiss money market becomes extremely liquid and runs into imported inflation. The gentlemanly techniques of the National Bank have proved inadequate to deal with such abnormal inflows and proposals are currently under legislative discussion to strengthen its powers to enable it: (1) to issue its own interest-bearing debt certificates for open-market operations; (2) to impose minimum reserve requirements on incremental deposits, with the possibility of applying the requirements to changes over the previous 12 months. The maximum ratios envisaged range from five per cent for medium-term cash bonds and savings deposits to 40 per cent for sight and bank deposits, with double ratios for the corresponding liabilities vis-a-vis foreigners; (3) to introduce global ceilings for the expansion of domestic bank credit. The permissible rate of growth of bank lending would, however, not be fixed below the previous year's real increase in GNP. Credit control arrangements would only remain in force for a maximum period of two years and the situation would be reconsidered at least every six months; and (4) to introduce global ceilings for public capital market issues.

The OECD's latest Annual Survey of Switzerland takes a dim view of these proposals, arguing that they would still leave the National Bank with far more limited powers than in most other countries, especially because banks and business dispose of high liquid funds abroad. The present value of the foreign investment of Swiss banks is thrice as big as the amount of primary and secondary domestic liquid reserves (central bank money plus commercial bills). The proposals would not remove some of the basic constraints (e.g., the traditionally low degree of banks' dependence on National Bank credit facilities and the close Swiss inter-relationship with foreign money and credit markets) with which the Swiss monetary authorities have to contend.

The size of the capital movements in and out of Switzerland has created a banking system remarkable for the number of its units and their efficiency. In 1966, not counting numerous private banks and branches of foreign banks, there were 1,591 credit establishments with total balances of S. Frcs. 96,800 million or, in constant values, more than twice the prewar value.

The "Big Five", which represent more than a third of this total, are deposit banks specialising in short and medium-term credit, but they also play an outstanding role in international loans and payments, in foreign exchange and gold operations, and in stock exchange operations at home and abroad. The 28 cantonal banks, which represent another third of the total, deal chiefly in mortgage loans. There are another 165 local banks, a hundred or so savings banks, and more than a thousand mutual credit establishments. Finally, and not the least significant in the light of what I have said above of its role, the National Bank is a private limited company of which the cantons and the cantonal banks hold the majority of the capital. I can't see these banks falling over each other to yield to the OECD's desire to see them all placed under the control of a traditional central bank.

The Swiss also contribute to their prosperity by their sensible readiness to save. In 1965, their savings attained the remarkable level of 27.8 per cent of GNP which, I should guess, must be the highest in the world (unless there is a misprint in my source). Savings remain persistently above investment so that Switzerland is a net exporter of capital. This is chiefly long-term direct investment in their foreign branches by insurance companies or industrial enterprises, e.g., in mechanical engineering, chemicals, and food products. Among the latter, Nestle's milk products are world famous. Other foreign investments include portfolios by individuals and by investment trusts. In 1960, Swiss foreign investments totalled S. Frcs., 40,000 million, of which 20,000 million were long term, compared with a total foreign investment in Switzerland of S. Frcs. 20,000 million. The balance of capital payments is particularly favourable, because the inflow is four times the outflow, leaving a surplus of S. Frcs. 1,370 million in 1966. This is partly because the plentiful supply of Swiss savings keeps domestic interest rates low.

III

THE FIGHT AGAINST INFLATION

The rapidity of economic growth since 1960 has led to inflationary price rises and rising deficits in the balance of payments. This overheating is basically due to the influx of foreign refugee capital. New investment greatly increased

after the war, but in 1959-64 it doubled while GNP rose by only 50 per cent. The rate of investment, which rose from 23 to 31 per cent of GNP, well above that of all other countries except Japan, exceeded domestic saving, astonishingly high though that was. The excessive investment following the massive entry of foreign capital, notably after the revaluation in 1961 of the DM and the Dutch florin, boosted demand. That consumer prices, which had risen 1.4 per cent between 1950 and 1960, thereafter rose 3.5 per cent has led the authorities to seek to slow down investment to within the domestic savings ratio.

Switzerland's postwar growth has created a labour shortage, met by recruiting foreign workers (mostly Italians), who in 1964 totalled 721,000 or 12 per cent of the total labour force. This rise in the labour force has contributed both to growth and to the excessive rise in investment; but it was also anti-inflationary because it helped to contain the rise in salaries and because the foreign workers send abroad a proportion of their earnings. Nevertheless, in order to slow expansion, the authorities have restricted immigration.

Anti-Inflationary Measures

Since 1961 the authorities have taken a wide series of measures restricting both domestic investment and the internal use of foreign funds. Interest on foreign deposits is prohibited. They cannot be withdrawn under three months notice and the Swiss have made it difficult to invest them in Swiss property or securities.

Despite some grumbling that these restrictions threaten Switzerland's leading position in the world money market, they have, on the whole, been well received and have largely achieved their purpose. The balance of trade has improved, the rate of increase of the money supply has slowed, and building costs have fallen. The growth rate has slowed to a rate compatible with domestic saving.

It is, however, here that we once again come up against the yawning gap in the thinking between (1) countries, such as Switzerland and West Germany, which value currency stability as the true indicator of profit and loss and the basis of growth in real (as opposed to nominal) terms, and (2) the pundits of the OECD who are outraged because the Swiss growth rate in 1967 was down to 1.9 per cent of GNP.

The OECD's Annual Survey of Switzerland (just published) points out that since 1965 private savings have exceeded private investment by increasing margins (over five per cent in 1967). This has been offset by the rapid growth of the export surplus and by increasing deficits due to excess of public investment over public spending. While the reappearance of a large external surplus has, says the OECD, been welcomed, the change of the public sector from net lending at beginning of the 1960s to growing net borrowing since 1963 has been denounced as inflationary and "unsound" budgetting. It is true, the OECD concedes, that the "deterioration" of the budget during 1961-64 was inconsistent with the maintenance of a reasonable balance in the economy, but the situation has now changed and, in the OECD's view, calls for stimulus. As long as private saving continues in excess of investment needs and price increases remain within tolerable limits, the public sector, asserts the OECD, needs to be a net borrower, because the aim of policy should not be to balance the budget but to balance the economy as a whole, and to counteract excesses or deficiencies of demand in the economy.

Now, there is, of course, some truth in this well-intentioned Keynesian doctrine, but it should never be forgotten that it was propounded to deal with the interwar depression when the unemployed numbered millions. To apply it without great care in the well-nigh universal postwar conditions in the western world, in which government expenditure rises virtually automatically, is to risk the road to hell—the constant growth of the public sector at the expense of the private sector (which is the sector that earns all the money to pay for government largesse).

The classic example of this is the UK government, which for twenty postwar years has been virtuously lecturing the rest of the world on its Keynesian wisdom, with the result that government spending and investment has steadily swollen until today it accounts for half of GNP. This has taken the enterprise out of private enterprise and taught everyone from company chairmen down to workers (and even non-working students) to look to government as the solver of all problems and cornucopia of bottomless "welfare". Hence an economy in permanent "recession", which Keynesian budgetary counteraction merely deepens. At long last even the Labour government has digested the lesson and is endeavouring to back peddle on government intervention and expenditure. But British public opinion has been so conditioned by the doctrine that the OECD now urges on Switzerland (and West Germany) that the task of re-educating employers and workers to see that their salvation lies in their own hands has become herculean.

If the Swiss prefer a growth rate of 1.9 per cent, a stable currency, and a low rate of taxation, to a growth rate of five per cent, rising prices, and rising taxes, I suggest that they are entitled to their choice.

Sources and Acknowledgements: Reports on Switzerland of Barclays Bank and the Banque Nationale de Paris, and the OECD's Annual Survey.

Eastern Economist 25 Years Ago

MARCH 3, 1944

It is a well-known principle that economic progress is attended with a shift of population from primary to secondary and tertiary industries. Under the Bombay Plan we shall remain a predominantly agricultural country even after 20 years of "colossal" industrialization and the working population in agriculture will fall only at the rate of about 1/2 per cent per annum from 65 per cent to 55 per cent in 15 or 20 years. An examination of the probable increase of internal and external demand for our agricultural products indicates that if an increase in agricultural production by more than the scheduled 130 per cent is associated with a 100 per cent increase in general standards of living and 200 per cent increase in national income, it can only lead to slump in agricultural prices. Judged by the criterion of minimizing social strains of occupational planning, the general pattern envisaged by the Bombay Plan is about correct. If to this we add extra-economic considerations such as the requirements of our defence (which was argued in our article last week), it cannot be said that industry has got more than its proper share of attention in relation to agriculture. The plea of the Bombay planners for a more balanced economy comes not only for reasons from the side of supply (e.g., the population pressure on soil in a country with limited scope for extension of cultivation and prevalence of diminishing returns in agriculture) but also on account of demand for agricultural products and general instability of foreign demands.

Prices, Taxes and Government Spending

GERARD A. DONOHUE

WASHINGTON:

AS THE Congress began studying the economic policies of the new administration this week, it quickly became apparent that members of the executive and legislative branches of the government are determined to check inflation and reduce government spending. These officials are not operating in a political vacuum. The President is well aware of the mood of the nation as a whole; and the Congressmen and Senators, just back from the Lincoln's birthday recess, know that their constituents are alarmed at the rapid price increases of the past year—up about five per cent compared to the almost imperceptible rises of one or two per cent in most of the postwar years.

And while wages and salaries are higher than ever before, the taxpayers are paying higher and higher taxes to their local, state and federal governments. There is definitely a strong feeling in the United States that far too much money is being spent by the government—particularly on costly military programmes. And wage earners and home-owners feel that too much of their incomes are being taken for local governmental expenditures on welfare, schools, streets, highways and so on.

Under the American system, the federal government has almost pre-empted personal and business income taxes as a source of revenue. Individual states rely on sales taxes, inheritance taxes and income-taxes at a far lower rate than those of the national government. Cities and towns depend upon property taxes, sales taxes and various forms of special taxes for the monies needed to operate schools, hospitals, welfare programmes, jails and other local activities. Costs of local governments have gone up rapidly in the last few years—more than one million people are on welfare in New York City alone.

Cities are wary about raising property taxes or sales taxes for fear residents will move to suburban areas and industries will relocate, thus cutting revenue even more. It is the middle class, wage-earning taxpayer who feels the pinch the most. Over the years, various tax incentives have been granted by the government to foster development of one industry or another or investment in general. Today many wealthy people are able to take advantage of these incentives. This causes great resentment among those who receive most if not all of their incomes from salaries or wages.

Municipal bonds, for example, are tax free. A wealthy man who might pay sixty or seventy per cent on income from industrial investment, can invest in bonds issued by cities and pay no federal tax whatsoever on this investment. The Administration and Congress are both studying the overall tax structure to end incentives—or "loopholes", as they have become known—for once worthwhile reasons that are no longer valid.

Budget Under Review

The administration of President Nixon, which has been in office for just one month, now is undergoing an exhaustive, detailed study of the budget prepared by President Johnson and his staff for the remainder of this fiscal year, ending June 30, and for the next fiscal year extending to June 30, 1970. It is still far too early for the administration to present detailed policies and plans, but it is clear from listening to testimony of top officials under sharp questioning from members of the Congress that they are determined to show a surplus in the domestic budget and thus slow down the rate of inflation by holding down expenditures. The whole tax structure will be reviewed by the Congress as the administration presents its proposals for tax reform. Neither cutting expenditures, nor changing the tax structure will be politically easy for either the executive or the legislative branch, but public pressures for both measures are strong and growing. It promises to be an interesting year, politically and economically.

Employment in Yugoslavia

AFTER THREE years of stagnation or decline in the number of employed, new vacancies have emerged since the middle of the past year in Yugoslav economic organizations. In November the public sector employed 3.54 million persons; the number of unemployed at the end of the past year was around 300,000. It is believed that the number of persons permanently unemployed is substantially lower. This view is strongly supported by the fact that for some jobs it is very difficult to find the right persons although the lists of unemployed include people with qualifications required for these jobs. That is why measures have been taken to clarify what the term "unemployed" actually means so that a more efficient action might be taken.

The recent sessions of the Federal Assembly's chambers adopted the resolution on economic policies in 1969 which foresees that the number of employed will increase by about 70,000 persons. However, considering the natural and mechanical outflow of labour, there is a possibility of employing 200,000 persons additionally. The employment policy will see to it that mostly the young people with higher qualifications take new jobs, so that the vacancies are filled with qualified people leading to improved labour productivity.

There is also a possibility that more workers might go abroad. There is the intention to regulate this outflow of labour through bilateral inter-state agreements to prevent going abroad of people at their own risk, without the safeguard of their rights in social insurance, health insurance, wages, accommodation, etc.

Easier Access

This does not mean, however, that the developments in the field of employment are already not livelier than they used to be. They started moving fast in mid-year when new measures to step up employment were taken.

After the adoption of the new law on the acceptance of candidates for vacancies in organizations, young people found it much easier to reach factory halls and plants. Since early last year up to now, over 50,000 candidates have received jobs, and the number is rising from month to month.

Although tens of thousands of young people are obtaining jobs now, the latest data have revealed that more rigorous steps need to be taken in the works organizations if the qualifications of those employed are to be improved. It should be noted, the unskilled workers account for 30 per cent of all employed, and the experts hold that their number at present should not be above 15 per cent.

The basic law on labour relations provides that the enterprises should prescribe the qualifications for jobs. The Federal Secretariat for Agriculture, using this provision, has developed the draft decision on filling the vacancies in agriculture and forestry. It is expected that other institutions

will follow suit. There are proposals also for economic organizations to have adequate internal regulations. This is a sort of intervention in the affairs of economic organizations, but what is at issue is a problem in the solution of which the whole community is interested. On this score, the intervention is justified.

After the decision of the National Bank that rediscount credit facilities, at a low interest rate of only two per cent, may be used for housing development, the things in the field of flat construction have turned to the better. This was especially so when business banks were allowed to give credits both to individuals and works organisations for housing development. In four months after the passage of this measure, credits for housing development went up by about 625 million new dinars. It is indicated that 20,000 new vacancies filled in building construction were opened largely due to the supplementary resources provided by the National Bank.

There is a widespread belief that tens of thousands of new jobs could be made available if the work of old-age pensioners could be prohibited or vastly reduced. Some republics have already taken measures to this end. As a rule, these measures include raising the taxes (even to 40 per cent) on receipts from part-time work and from the work of old-age pensioners. This will compel works organisations to employ these people only if their services are really necessary for the execution of certain activities.

A Period of Calm

E. B. BROOK

VIENNA:

THIS ARTICLE is being written on the eve of one of the most important meetings the OECD has ever held. Its purpose is to state the problems of the meeting, which are the problems of world finance and to put forward what appear to be the probable and reasonable attitudes to those problems as seen in Europe today.

These problems are shared by western Europe and the USA principally, with South Africa, as a major gold supplier, playing a major role off-stage.

The fundamental problem faced by all concerned is how to get rid of deficits and surpluses. The world's trade is out of balance on its money side and from that fact stem all the periodic rushes from one currency to another that earn the unenviable name of speculation but which are little more than large-scale severe attacks of financial nervousness. The world of money today is not so much aggressive as suffering from recurring timidity and an enduring anxiety.

The anxiety can be measured by the wealth of ideas put forward as measures to put things right. Principal among these and supported by a prominent school of economists in the USA and Canada is a departure from the fixed exchange rates known as the par-value system in favour of a liberal area of permissible variations in par values of national currencies. There are several elaborations of this scheme, which would permit a currency to move as much as five whole points instead of only one from its fixed parity either way.

Sick Currencies

The wide liberality of this idea suggests how sick some economists consider some of the major currencies to be. Not less striking is the unanimity and near stridency of a whole dissimilar range of financial leaders from Germany's Franz Josef Strauss to Britain's socialist Prime Minister and the Governor of the Bank of England in pouring scorn on this proposal, in deprecating any idea of calling a "new Bretton Woods" conference to discuss international money values or any substantial reform of the exchange system or, in fact, of existing exchange rates.

The unanimity and volume of these protests arouses the suspicion that the protesters feel the need to over-advertise their views since it is fairly clear that the existing exchange system is vulnerable and uncertain and the best of international experts do not know what to do about it. In such circumstances, say all together, the best thing is to let it alone.

There is, it is true, a period of calm at present, a fact which adds force to the argument that what is needed is a period—a long period—of quiet and calm. No one would deny this, but what is to follow the period of calm if some safer arrangements are not made during this healing period?

There is also a genuine doubt if the present really is a period of calm and not merely a period of waiting—for Nixon and his team. Every indication that has come from the USA is that, financially and economically, the new administration is going to rock no boat, to make very few changes and, like Europe at the moment, to wait and see. If this is true, the centres of the financial world will all be waiting and seeing together, but for how long?

It is doubtful if the OECD meeting between the Americans, the Canadians, the Europeans, the British and the Japanese will have anything striking to propose. They have before them as solid facts the fundamental sickness and poor nervous state of the world money markets, doubts—even fears—as to which way they will move next, the need for flexibility in an inflexible financial structure and a two-tier gold price system that has all the appearances of an emergency, makeshift arrangement.

Evolutionary Changes

Among those meeting, the Americans alone have acknowledged the need for "evolutionary changes"; everybody is intent, it appears, not so much on making use of the present lull in "runs" on currencies to make a thorough, methodical investigation of ills and their cure as to pretend with desperate earnestness that nothing is seriouly wrong.

Comment in Europe, particularly from prosperous West Germany and obstinate France, is not encouraging. The one feels that a well-organised two-tier gold market and the Basle facility for sterling balances will have stabilizing effects on the international monetary system; that the credit facilities of the International Monetary Fund combined with the swap arrangements of the central banks will provide trading nations with ample international liquidity. The other, France, assured that the USA will not seek a change in the price of gold, will, with the Germans, oppose any change in the flexibility of exchange rates.

Neither the French nor the British are yet out of the wood of devrluation and though the UK's trade will probably reach equilibrium this year the achievement of a surplus lies far ahead. The UK, the USA and France are all deficit countries. All are trying, with fear of devaluation to spur them, to restore their balances by deflation but its retarding effect will not be seen for some time.

In such circumstances, the phrase so often used now—"A period of calm" acts like a tonic after sickness. What is to be feared still is that it may not be a tonic but a soporific. What its function actually turns out to be will depend on what use is made of it; the only healthy use will be an earnest, systematic examination of the hard operational implications of the various forms of non-fixed rate systems with careful noting of their respective advantages and disadvantages. If this is done, the future may be more assured because better informed. If, instead, the "period of calm" is used only to heave a sigh of relief and to relaxedly wait for the next round of trouble to turn up the choice of cures when it arrives may, within a relatively short time, be harsher.


Dr. Beck's Varnishes?
No stocks?
All exported?

The moving finger writes

IT WAS perhaps predictable that, when the good hour struck, President Ayub Khan would follow the American example of LBJ rather than the Roman example of Cincinnatus. His announcement that he would retire when he completed his present term and that he would not stand for re-election next year, given the circumstances in which he was forced to make it, is a surrender which does not have the grace of an abdication. Incidentally, in the analogous American situation, there were the settled processes of a democratic constitution to ensure a civilized change-over. The people of Pakistan, unfortunately, are without this guarantee.

* *

On a famous occasion, with the economy of Britain in bad shape, the Prime Minister, Mr Harold Wilson, dramatically announced that he had decided to take upon himself the direction of the economic affairs of his country. The expected economic miracle did not materialise. Bad became worse and the threatened devaluation of the pound was, in due course, an accomplished fact. Mrs Gandhi has divested herself of the portfolio of External Affairs so that, as is put out by her secretariat, she may devote more of her time and energies to the important task of economic co-ordination. I do not want to suggest that on the analogy of Mr Wilson's Britain, Mrs Gandhi's India should prepare itself for the worst. But I do confess that I am unable to appreciate the value of Mrs Gandhi's melodramatic posture.

I have always been under the impression that the Finance Minister, who has the added status of the Deputy Prime Minister, is attending to economic co-ordination and that there are means and machinery in his ministry for the purpose. Then, again, as Chairman of the Planning Commission, the Prime Minister presumably has always been in the picture so far as economic co-ordination is concerned. What then is the meaning of the new trappings of authority or responsibility that she seeks to put on? Is it not possible that any attempt on her part to create a machinery in her own secretariat for undertaking economic co-ordination may lead to a clash with the responsibilities and the functions which the Finance Ministry is discharging or has to discharge in the same area?

* *

Prima donnas are, by definition, temperamental. The trouble with them is that they insist on being difficult even after they have begun losing their box-office appeal due to age or other reasons. The current behaviour of Mr Fakhruddin Ali Ahmed is a case in point. Petted and pampered by the Prime Minister out of all proportions to his political or other substance, the Minister for Industrial Development is now past beyond recognising the emptiness of his ego. By any reasonable reckoning of ministerial merit, Mr Ahmed should long ago have been stopped from mismanaging the industrial economy of the nation. Mrs Gandhi, for reasons of her own, is not prepared to dispense with his services as a cabinet minister. But even she has found it necessary to try to take some of his functions away from him. Yet her effort, thanks to her half-heartedness, has aborted. Although a new charge of Heavy Engineering has been created under another ministry, Mr Ahmed has successfully resisted any substantial transfer of the subject from his custody. The result is that only a few public sector projects have been shifted to the new Ministry of Steel and Heavy Engineering which makes the whole operation farcical. Threatened with an amputation of limbs, Mr Ahmed has, in the event, escaped with the loss of a few locks of hair.

This does not by any means complete the entertainment aspect of Mrs Gandhi's endeavour to cut Mr Ahmed to size. There is more to follow. Presumably, Mr Ahmed was not prepared to agree to any surgery, however minor, on his portfolio, unless it was to be plastic surgery so that there could be additions as well as subtractions. The new ministerial territory he has been able to acquire is the Department of Internal Trade. Here, again, he was not the man to be satisfied easily. Although it had been settled long ago that certain industries with a pronounced export aspect were to be considered as part and parcel of the portfolio of Foreign Trade, Mr Ahmed chose to reopen the issue. Even if he ultimately failed to wangle any concessions out of the Prime Minister in this matter, his bid did add to the confusions attendant on the re-ordering of ministerial business in the wake of what has come to be generally, but incorrectly, described as "the cabinet reshuffle".

Quite a few observers of the New Delhi political scene seem to believe that Mr Dinesh Singh's entry into the Ministry of External Affairs would necessarily lead to the reversal of the trend, seen in recent months, towards the enlargement of the role of the top officials in the formulation of policy initiatives. There is speculation, in particular, of the further course of Mr T. N. Kaul's endeavour to fashion foreign policy. The dominant view seems to be that Mr Dinesh Singh will lose no time in making it clear who, under the overlordship of the Prime Minister, is master in the Ministry of External Affairs. My own belief is that neither the minister nor the permanent officials, including Mr Kaul, are likely to have problems. Apart from the fact that Mr Dinesh Singh had always been of the core of the coterie which has been functioning in the areas of the Prime Minister's responsibilities which had included the direct charge of Foreign Affairs until now, it may reasonably be expected that the Dinesh Singh-Kaul team would be as successful in establishing a pattern of fruitful co-ordination of functional relationships between minister and secretary in the External Affairs Ministry as the Dinesh Singh-K.B. Lall team was in the now defunct Ministry of Commerce. The prospects, I must say, do please me for much good work was undoubtedly done in the Commerce Ministry and I do believe that this story can be repeated in the Ministry of External Affairs.

Meanwhile, I am not at all sure that Mr B. R. Bhagat is overjoyed at Mr Dinesh Singh's hint that, as Minister for External Affairs, he would be keenly interested in participating in policy-making in the sphere of our economic relations, including trade relations, with other countries. As Minister for Foreign Trade and Supply, Mr Bhagat has perhaps started wondering what exactly is cooking in the mind of his restless and resourceful colleague. It is quite possible that there could be a clash of personalities and jurisdictions with Mr Dinesh Singh and Mr Bhagat trying to do the same thing but in different ways, each according to his lights. As a minister newly elevated to cabinet rank, Mr Bhagat may well have a lively fear of being shouldered out of significant areas of his own portfolio. This is not to say that co-ordination between the Ministry of External Affairs and the Ministry of Foreign Trade and Supply is not necessary or desirable; only, there should be no attempt to enact the fable of the giant and the dwarf. Although physically Mr Dinesh Singh and Mr Bhagat are about equal in stature, Mr Dinesh has certain advantages of a personal or political nature which may easily lend themselves to use for purposes of self-aggrandisement.

V.B.

Trade Winds

FOURTH PLAN DRAFT

A FULL meeting of the Planning Commission, held under the chairmanship of the Prime Minister, approved the draft of the fourth five-year Plan recently. The entire outlay has been envisaged at Rs 24,350 crores. The public sector investment is at Rs 14,350 crores with the central plan at Rs 8,300 crores. The private sector plan is set at Rs 10,000 crores. The increase in industrial production has been assumed at a slightly higher rate—between nine and 11 per cent. Agricultural output is likely to go up by around five per cent and the overall national income by about 5.5 per cent. The export target remains unchanged at an annual increase of seven per cent. Some cut in the investment target has been necessitated by a more realistic assessment of the states' resource effort over the planned period. Against a figure of Rs 3,000 crores under this head in the approach paper, it has been estimated that the actual mobilisation is likely to be around Rs 2,550 crores. Central assistance will be Rs 3,500 crores as announced earlier, taking the total figure for states' plans to Rs 6,050 crores. The National Development Council is likely to be convened towards the third week of March, by which time the new ministries in Punjab, UP, Bihar, West Bengal and Nagaland will also be installed and their chief ministers will have had time to study the draft Plan document and other papers and thus be in a position to participate fruitfully in the NDC discussions.

EXPORTS DEVELOPMENT

Creation of export promotion cells under the charge of the concerned estate managers or administrative officers after providing them with orientation in export marketing techniques is one of the major recommendations of the sub-committee set up by the Standing Committee on Export Promotion of Small Industries under the convenership of Mr I. C. Dhanda, Divisional Manager of the State Trading Corporation. The sub-committee's report was submitted to the standing committee in September 1968 and has now been released by the Indian Institute of Foreign Trade. These officers, the sub-committee visualises, would identify and select the products possessing export potential as also the enterprises in the industrial estates which can manufacture the products identified. The identified units would be linked up with the export aid for small industries scheme of the STC, export corporations, small industries corporations undertaking exports, etc. These officers would also explore the possibilities of organising the identified units into export marketing groups. The sub-committee's report highlights the important role that industrial estates can play in the export effort.

PUNJAB MINISTRY

A five-member Akali-Jana Sangh ministry with Mr Gurnam Singh as Chief Minister, took office on February 17. The members of the cabinet and their respective portfolios are as follows:

Mr Gurnam Singh (Chief Minister): General Administration including Reorganisation, Home, Vigilance, Elections, Jails. Administration of Justice, Legislative, Transport, Public Relations, Tourism, Cultural Affairs, Health, Medical Education, Forests, Agriculture, Printing and Stationery, Housing, Slum Clearance, Social Welfare, Welfare of Scheduled Castes and Backward Classes, Political Sufferers, Community Development, Co-operatives, Animal Husbandry, Dairying, Fisheries, Sports and Wild Life Preservation.

Mr Balramji Das Tandon: Industries, Cottage Industries, Industrial Training and Industrial Co-operatives.

Mr Sohan Singh Bassi: Irrigation and Power, PWD (buildings and roads), Public Health, Engineering, Rural Electrification, Technical Education, Architecture, Colonisation, Town and Country Planning, Urban Estates, Administration of the Gurdwaras Act (1925), Education and Languages.

Mr Atma Singh: Revenue, Land Reforms, Consolidation of Holdings, Relief and Rehabilitation, Welfare of Defence Services and Civil Aviation.

Mr Krishan Lal: Finance, Planning, Statistics, Small Savings, Labour and Employment, Parliamentary Affairs and Local Government.

NAGALAND MINISTRY

A 16-member new Nagaland Ministry, headed by Chief Minister, Mr Hoishe Sema, assumed office on February 22. The portfolios of the new ministers have not yet been announced. The new ministry has six cabinet ministers, including the Chief Minister, five Ministers of State and five Deputy Ministers. Among the cabinet ministers is the former Chief Minister, Mr T. N. Angami.

TECHNICAL AID TO ASIAN NATIONS

India has offered to help its Asian neighbours in setting up plants for agricultural machinery, fertilisers, petrochemicals and iron and steel, by making available its technical assistance and consultancy services. The offer was made by the Industrial Development Secretary, Mr N. N. Wanchoo, at the recent Asian Industrial Development Council meeting at Bangkok. The meeting was convened by the Economic Commission for Asia and the Far East. Mr Wanchoo who returned to New Delhi recently said our offer met with good response. The offer was made as part of our efforts to forge effective regional co-operation among Asian nations.

MANGANESE EXPORT TO JAPAN

This country signed on February 15 a contract valued at £3.17 million to supply 300,000 tonnes of ferruginous manganese to a group of nine Japanese steel mills. Of the contracted quantity, 30,000 tons are optional and 270,000 tons are firm contract. The entire quantity will be supplied by March next. The agreement was signed for this country by the chairman of the Minerals and Metals Trading Corporation of India. It is believed that Japan's steel production would reach 100 million tons per year soon. At present, the steel production is 65 million tons. Japan buys her ore requirements from a variety of sources, including Australia.

WAGONS FOR POLAND

The State Trading Corporation recently signed a contract for supply of 500 railway wagons to Poland. According to the contract, the STC, in association with an Indian firm, will supply to Poland 500 standard gauge covered goods wagons made according to the latest European specifications. This country, at present, is exporting railway wagons to 10 countries in Europe, Asia and Africa. It has exported nearly 1,550 wagons so far. This country exported goods to Poland during April-October 1968 to the tune of Rs 14.73 crores as compared to Rs 10.55 crores during the same period in 1967.

I.M.F. DRAWINGS

During 1968, although the financial activity of the International Monetary Fund reached a record level, its developing members made only slightly greater use of its resources. The net drawings of the 87 member-countries in Africa, Asia, Latin America and the Middle East rose during the year by \$79 million to \$1,749 million. Net drawings of all the 111 members rose by about \$600 million to \$5,086 million. The peak figure of \$5,653 million, reached in June 1968, was subsequently reduced by repayments, and sales of currencies having the effect of repayments. There has been a gradual rise in the net drawings of developing countries since the end of 1958, when the figure was \$650 million. The increase

in the net drawings of developing countries since 1958 has amounted to about $1.1 billion. In the same period, the quotas of developing countries rose from $1,468 million to $5,032 million. The developing countries drew $60.35 million in 1968, under the IMF's special provisions for compensatory financing to offset the effects of export shortfalls, and their net indebtedness under this heading was $255.1 million at the end of the year.

DRUG MANUFACTURERS' MEETING

Certain recommendations for future growth of pharmaceutical industry were made at the fourth All-India Drugs and Pharmaceutical Manufacturers' Conference, held under the auspices of the AIMO, which was inaugurated by Mr Manubhai Shah, former Minister for Commerce, at Baroda recently. Mr Ramanbhai Amin welcomed the chief guest and the delegates, and the conference was presided over by Mr Bipinbhai Mehta, President of Gujarat State Board of AIMO, in the absence of Mr Y. A. Fazalbhoy, AIMO president.

DEVELOPMENT OF TOURISM

The Federation of Indian Chambers of Commerce and Industry has set up a tourism sub-committee with Mr S. P. Godrej as chairman. It held meetings in Madras, Bombay, Calcutta and Delhi in which representatives of voluntary organisations and other agencies concerned with tourism were invited. The sub-committee has also been trying to follow up the various suggestions made at the meetings. It has been felt that this country has not yet developed tourist-consciousness which we observe in countries such as Japan, Spain and Yugoslavia. That tourism is an elaborate and serious industry in itself was evident from the organisation of the recent Pacific Travel Agents Association Conference in Bangkok. In these countries voluntary organisations and local authorities play an important part. Conscious of the need for voluntary organisations in this country also taking up a more positive attitude, the Federation had set up this sub-committee.

CEYLONESE CO-OPERATIVE COMMISSION

The members of the Royal Commission on Co-operative Movement in Ceylon, arrived in New Delhi on February 17 and had discussions with Mr Jagjivan Ram, union Minister for Food, Agriculture, Community Development & Co-operation, and Mr M. S. Gurupadaswamy, union Minister of State for Co-operation. The commission, appointed by the Government of Ceylon, is enquiring into the present state of co-operative movement in Ceylon with special reference to its role in the development of its economy in agricultural and industrial sectors. The commission also discussed with Prof D. R. Gadgil, Deputy Chairman of the Planning Commission, the role of co-operative movement in the forthcoming five-year plans of our country.

INDIAN PETROLEUM CONFERENCE

The Third Indian Petroleum Conference will be held in Duliajan, Upper Assam, field headquarters of Oil India Ltd, some time in February 1970. It was earlier decided that Oil India Ltd, and the Oil and Natural Gas Commission, the two national agencies presently concerned with the exploration and development of indigenous sources of crude oil in the country, will play host alternatively to the conference. The first conference was held in Duliajan, Upper Assam, in February, 1968, and the second recently concluded its deliberation at Baroda, Gujarat.

FERRO-ALLOYS PLANT

The metal and ferro alloys plant of the Sandur Manganese and Iron Ores Ltd was inaugurated by Mr S. Nijalingappa, President, Indian National Congress, on February 20. Mr Veerendra Patil, Chief Minister of Mysore, presided on the occasion. The 15,000-kVa electric reduction furnace will be producing 40,000 foundry-grade pig iron to meet the need of specialised foundries and engineering works for quality pig iron. The company has already established itself as an exporter of manganese ore. It has undertaken mechanization and electrification of its mines with the help of the Minerals and Metals Trading Corporation. The company has also been able to export iron ores. The unit has the technical and financial collaboration of Societe Anonyama D' Applications De Chimie Industrielle, Belgium, and Industrial and Mining Investment Corporation of Luxembourg. During the last 15 years, the company has made substantial progress through continuous expansion. Production of manganese ore, for instance, has increased from less than 30,000 tonnes in 1954 to more than 210,000 tonnes in 1968.

A.D.B.'s LOAN TO MALAYSIA

The Asian Development Bank has approved a loan of US $2.8 million to the Government of Malaysia to finance the foreign exchange outlay on the first two stages of two palm oil mills of the Federal Land Development Authority (FLDA) in the State of Pahang, West Malaysia.

CREDIT FOR SMALL INDUSTRIES

The Seminar on Credit Facilities for Small-Scale Industries organised by the Development Commissioner, Small-Scale Industries, Ministry of Industrial Development and Company Affairs, was held under the presidentship of Mr Bhanu Prakash Singh, Deputy Minister for Industrial Development and Company Affairs, on February 21, in New Delhi. The seminar was inaugurated by Mr Morarji Desai, Deputy Prime Minister.

INDONESIAN FOREIGN MINISTER'S VISIT

Mr Adam Malik, Indonesian Minister for Foreign Affairs was recently in this country on a four-day visit at the invitation of our government. He called on Mr Dinesh Singh, Minister for External Affairs, and the Prime Minister, Mrs Indira Gandhi.

THAI TRADE DELEGATION

An 11-member economic and trade delegation from Thailand was on a visit to this country from February 19 to 24. The delegation was led by Mr Nam Phoonwathu, Director-General of Foreign Trade Department. A trade agreement between our country and Thailand was concluded in Bangkok recently.

NAMES IN THE NEWS

Mr J. C. Finlay, M. C., Chief Representative of the Burmah Oil Group of Companies in India and Managing Director, Oil India Ltd, has been elected to the Boards of the Assam Oil Company Ltd, and the Burmah Oil Company (India Trading) Ltd, both subsidiaries of the Burmah Oil Company Ltd, London.

Mr Walter O. Habermeier, of Germany, has been designated Treasurer of the International Monetary Fund. His appointment became effective from February 1, 1969.

Mr Keith Granville, Managing Director of BOAC, was in Bombay for two days recently. This was his first visit after assuming that office. With him was Mr Basil Bampfylde, who was BOAC's General Manager, Eastern Region, for 10 years before becoming Deputy Commercial Director recently.

Mr J. M. Parsons has been elected the new President of the Associated Chambers of Commerce and Industry of India. He has also been re-elected President of the Bengal Chamber of Commerce and Industry, Calcutta, for the year 1969-70. As President of the Associated Chambers, Mr Parsons succeeds Mr N. M. Wagle, the former President of the Bombay Chamber of Commerce and Industry.

Mr Pravinchandra V. Gandhi has been unanimously elected as President of the Indian National Committee of the International Chamber of Commerce for the year 1969-70. At present Vice-President of the India National Committee, he will take charge from Mr L. N. Birla on June 7, 1969, at the close of the XXIInd Congress of International Chamber of Commerce.

Company Affairs

NATIONAL AND GRINDLAYS

LORD ALDINGTON, Chairman, National and Grindlays Bank, revealed in a statement issued on the occasion of the annual general meeting of the bank held recently that, subject to appropriate shareholders consent. Ottoman Bank branches would join the bank. He added that the participation of First National City Bank of New York, would also increase the capital resources of the bank. He observed that the year 1968 recorded considerable progress and 21 new branches and sub-branches were opened by the bank. The consolidated balance sheet recorded an increase in deposits during 1968 of above £50 million. During the same year advances increased around £30 million recording a rise of 15 per cent. Consol dated profit were estimated for the year 1968 at £1.50 million as against £1.30 million for 1967. Lord Aldington pointed out however, that in India profitability was lower in the first half of the year though during the second half there was some improvement. The chairman was confident that with new methods and new machines better results would be achieved and greater satisfaction would be provided to the customers.

The chairman indicated that the directors of the bank decided to recommend a total dividend for the year 1968 at 13.97 per cent as compared with 13.5 per cent last year. The directors have also decided to pay a first interim dividend of 3 per cent for the year 1969 in accordance with the practice followed in the last three years. The bank had 242 branches and sub-branches in overseas areas and the chairman hoped that by March 1, 1969, the total would increase by 52 branches from Ottoman Bank making a total of 294 branches and sub-branches. The chairman was hopeful that this process of expansion would continue in the years to come.

J.K. COTTON

Jugilal Kamlapat Cotton Spinning and Weaving Mills Co. Ltd proposes to issue shortly for public subscription 25,000 (10 per cent) cumulative redeemable preference shares of Rs 100 each at par payable in full on application. The entire public issue has been underwritten. The company has an authorised capital of Rs 5 crores and an issued and paid-up capital of Rs 142.87 lakhs. The proceeds of the issue will be utilised for financing partly the television project undertaken by the company. The company has obtained a licence to manufacture 10,000 television sets a year. The capacity will be expanded in due course. The technical know-how will be provided by the Central Electronics Engineering Research Institute, Pilani. The new factory is located at Kanpur. Most of the plant and equipment has already arrived and been installed. The new unit, which is known as J.K. Electronics has already gone into trial production. Import licences for foreign components to be used as raw materials for producing television sets have already been received and some consignments have arrived. The total capital outlay on the project is estimated at Rs 65 lakhs, which will be met by issue of preference shares (Rs 25 lakhs), bank borrowings (Rs 25 lakhs) and internal resources (Rs 10 lakhs).

SOUTH MADRAS ELECTRIC

The board of South Madras Electric Supply Corporation Ltd has sought the shareholders' approval to utilise Rs 42.31 lakhs received as compensation for its Mayavaram-Mannargudi Tiruvarur Electrical Undertaking, acquired by the Tamil Nadu government, in any manner that the board may deem fit. The sanction will also apply to the utilisation of any further amount that may be received by the company. The company has claimed a total compensation of Rs 1.93 crores against which the government has awarded a provisional compensation of Rs 99.59 lakhs. After deducting a sum of Rs 19 lakhs from the 75 per cent of the provisional compensation, the government has deposited a sum of Rs 55.69 lakhs with the Reserve Bank out of which an amount of Rs 13.38 lakhs has been claimed by the staff and the workers. The company has filed objections to this claim, but pending its settlement the authorities have directed it to disburse the balance of Rs 42.31 lakhs.

DANFOSS (INDIA)

Danfoss (India) Limited has opened a new factory in Ghaziabad, near Delhi. The new factory, which has recently commenced production, was visited by Mr I. K. Gujral, the union Minister for Information & Broadcasting, Mr H. A. Biering, Ambassador of Denmark and Mrs Biering, Mrs Mads Clausen, Chairman, Danfoss A/S of Denmark, Mr H. Holck-Larsen, Chairman, Larsen & Toubro Ltd, and Mr A. Jepsen, Managing Director, Danfoss A/S, Denmark. Danfoss (India) Ltd manufactures the well-known range of Danfoss controls, which are used by a large number of industries and are part of the original equipment in domestic refrigerators, ice-cream cabinets, water coolers, cold storages, industrial air-conditioning and refrigertaion, transport refrigeration, air compressors, water pumps and water supply installations, low pressure gas cylinders, automobiles, trucks, jeeps, internal combustion engines, instrumentation and automation of industrial plants, etc. The bulk of the products made in this country in these lines have Danfoss controls fitted on them. Danfoss (India) Limited's Bombay factory started production in 1962 of Danfoss thermostats. A number of other products have been added since then, such as driers, pressure controls, etc. New products to be manufactured in the Ghaziabad factory include expansion valves, high and low pressure cutouts and differential pressure controls, solenoid valves and shut-off valves for low pressure gas cylinders, relays and overload protective devices.

WESTERN BENGAL COAL

Western Bengal Coal-fields Ltd will enter the capital market some time next month with an offer of 15,000 (9.5 per cent) redeemable cumulative preference shares of Rs 100 each. The proceeds of the Rs 15-lakh capital issue will be utilised to finance the company's expansion programme. The company's expansion plans envisage an increase in its coal raisings from 957,000 tonnes to 1,620,000 tonnes by 1971-72. It is expected to cost the company about Rs 1.34 crores. The company will raise about Rs 1.19 crores from its internal resources and the balance from the preference issue. The directors of the company feel that its gross profit will rise by more than 100 per cent over the next four years, barring unforeseen fatcors. The company which has an authorised capital of Rs 2 crores has already issued fully-paid equity shares worth Rs one crore. With the amalgamation of the Central India Coal-fields Ltd with it in 1967, the company's capacity rose by 79,000 tonnes per month.

COROMANDEL FERTILISERS

Coromandel Fertilisers Ltd incurred a loss of Rs 3.87 crores for the year ended September 30, 1968. The loss was anticipated by reason of late plant start-up coupled with full depreciation and long-term interest charges. The factory began production satisfactorily, but suffered considerably from lack of reliable power supply. An unprecedented drought in Andhra Pradesh adversely affected sales. Despite these set-backs, the company hopes to fulfil expectations this year. The directors in their report point out that production of urea started on December 15, 1967, and that of complex 28-28-0

on February 5, 1968. Normal start-up problems were encountered, but by September 1968, the plant production reached about 85 per cent of designed capacity. Successful plant operation and reduction in prices of two major raw materials, i.e., sulphur and rock phosphates have enabled the company to reduce the price of complex 28-28-0 by Rs 40 to Rs 1,191 per tonne exclusive of taxes, effective from December 10, 1968. The company is, however, concerned over the irregular supply of railway wagons. Net sales during the year under review were Rs 11.08 crores against Rs 3.81 crores in the previous year.

ANDHRA SUGAR

Andhra Sugar Ltd has earned a higher profit of Rs 68.22 lakhs for the year ended September 30, 1968, against Rs 18.98 lakhs for the previous year, after providing for depreciation. The general reserve gets Rs 6 lakhs, dividend reserves Rs 13.50 lakhs and development reserves Rs 30 lakhs. The company proposes to maintain the equity dividend at 12 per cent subject to sanction by the Industrial Finance Corporation.

MACNEILL & BARRY

Macneill & Barry Ltd proposes to raise the interest rate on its outstanding debentures from 5 to 7.75 per cent per annum on the condition that the maturity date is extended by 15 years to April 1, 1986. The proposal has been made to the debenture stockholders with a view to conserving funds for the company's expansion and diversification. The proposal would also be advantageous to the debenture stockholders as they would receive an immediate increase in the rate of interest, bringing it in line with the current yield on new debenture issues, and would broaden the marketability of debenture stock. Debenture stockholders who are not agreeable to the postponement of the date of maturity will be paid in cash the amount due on the maturity date, namely April 1, 1971, and, in the meantime, they will be paid interest at the rate of five per cent per annum. The total outstanding debenture stock amounts to Rs 73.60 lakhs.

E.I.D. PARRY

The directors of E.I.D., Parry Ltd have recommended a final dividend of 6.75 per cent for the year ended September 30, 1968, against 5.50 per cent paid for the previous year. This together with the interim dividend of 3.25 per cent, against 2.25 per cent paid last year, makes a total of 10 per cent for the year against 7.75 per cent for 1966-67. The higher dividend follows a marked rise in the company's earnings. The group pre-tax profit amounts to £1.48 million against £0.95 million for 1966-67. The provision for taxation is lower at £0.477 million against £0.630 million. The net profit, after deduction of proportion of profits of subsidiary companies attributable to outside shareholders' interests is substantially higher at £992,000 against £324,000. The dividend payments for 1967-68, in terms of rupees, will account for Rs 56.53 lakhs against Rs 45.93 lakhs for 1966-67.

FIBREGLASS PILKINGTON

Fibreglass Pilkington Ltd expect to record an increased turnover during 1968-69 to the extent of 18 to 19 per cent, as compared to that in the previous year. This was stated by the Managing Director of the company recently. He added that the demand for fibreglass yarn was more than the supply. The company had recently received equipment to step up this production. On installation of the new machinery, production of fibreglass yarn in the country would be more than doubled. Further increase in the production of this item was planned for a subsequent stage in the current year. Everything would, however, depend on the grant of import licences for essential equipment not available within the country.

I.C.I.C.I.

The audited accounts of the Industrial Credit and Investment Corporation of India Ltd for the year ended December 31, 1968, revealed a net profit, after providing for depreciation and taxation, of Rs 143.69 lakhs as against Rs 139.74 lakhs last year. The directors have decided to recommend a dividend of nine per cent subject to tax on ordinary shares.

INDIAN HUME PIPE

The shareholders of Indian Hume Pipe Company Ltd at their extraordinary general meeting held recently approved a resolution declaring an additional dividend of one rupee per share for the year ended June 30, 1968. This dividend would be payable to those shareholders whose names stand on the company's register on February 15, 1969.

CANARA BANKING CORPORATION

The Canara Banking Corporation Ltd has shown a profit of Rs 4.77 lakhs (after providing for taxation and for payment of bonus to staff) for 1968 against the pre-tax profit of Rs 12.49 lakhs for the previous year. The surplus is Rs 4.21 lakhs of which the reserve fund gets Rs 85,000. An equity dividend of 10 per cent has been recommended. Deposits of the bank during the year have gone up from Rs 18.37 crores to Rs 19.82 crores and advances from Rs 10.80 crores to Rs 12.33 crores. While the reserves have gone up from Rs 34.50 lakhs to Rs 35.53 lakhs, total working funds have risen from Rs 21.98 crores to Rs 23.56 crores.

UNIT PRICE RAISED

The Unit Trust of India raised the sale and repurchase prices of units by five paise each with effect from February 19 to Rs 10.65 and Rs 10.15 per unit respectively.


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RECORDS AND STATISTICS

Allocation of Business of Ministries

THE GOVERNMENT announced recently two notifications further amending the Government of India (Allocation of Business) Rules 1961. These rules relate to allocation of business in respect of major economic ministries and they came into force with effect from February 14, 1969. The notifications are reproduced in full below:

NOTIFICATION

In exercise of the powers conferred by clause (3) of article 77 of the Constitution, the President hereby makes the following rules further to amend the Government of India (Allocation of Business) Rules, 1961, namely:

1. **Short title and commencement**: (I) These rules may be called the Government of India (Allocation of Business) (Seventy Third Amendment) Rules, 1969.

(2) They shall come into force with effect from February 14, 1969.

2. In the Government of India (Allocation of Business) Rules, 1961,—

(a) in the First Schedule, for the heading "Ministries, Departments, Secretariats and Offices" and the entries thereunder the following shall be substituted, namely:—

"MINISTRIES, DEPARTMENTS, SECRETARIATES AND OFFICES

1. Ministry of Defence:
   (With a Department of Defence Production and a Department of Defence Supplies within the Ministry).
2. Ministry of Education and Youth Services.
3. Ministry of External Affairs.
4. Ministry of Finance:
   (i) Department of Economic Affairs.
   (ii) Department of Expenditure.
   (iii) Department of Revenue & Insurance.
5. Ministry of Food, Agriculture, Community Development & Co-operation:
   (i) Department of Agriculture.
   (ii) Department of Food.
   (iii) Department of Community Development.
   (iv) Department of Co-operation.
6. Ministry of Foreign Trade and Supply:
   (i) Department of Foreign Trade.
   (ii) Department of Supply.
7. Ministry of Health and Family Planning, and Works, Housing & Urban Development:
   (i) Department of Health.
   (ii) Department of Family Planning.
   (iii) Department of Works, Housing & Urban Development.
8. Ministry of Home Affairs:
   (With a Department of Administrative Reforms within the Ministry).
9. Ministry of Industrial Development, Internal Trade and Company Affairs:
   (i) Department of Industrial Development.
   (ii) Department of Internal Trade.
   (iii) Department of Company Affairs.
10. Ministry of Information & Broadcasting.
11. Ministry of Irrigation & Power.
12. Ministry of Labour, Employment & Rehabilitation:
    (i) Department of Labour & Employment.
    (ii) Department of Rehabilitation.
13. Ministry of Law:
    (i) Department of Legal Affairs.
    (ii) Legislative Department.
14. Ministry of Petroleum and Chemicals and Mines and Metals:
    (i) Department of Petroleum.
    (ii) Department of Chemicals.
    (iii) Department of Mines & Metals.
15. Ministry of Railways (Railway Board).
16. Ministry of Shipping and Transport.
17. Ministry of Steel and Heavy Engineering.
18. Ministry of Tourism & Civil Aviation.
19. Department of Atomic Energy.
20. Department of Parliamentary Affairs.
21. Department of Communications.
22. Department of Social Welfare.
23. Cabinet Secretariat:
    (i) Department of Cabinet Affairs.
    (ii) Department of Statistics.
24. President's Secretariat.
25. Prime Minister's Secretariat.
26. Planning Commission.";

(b) in the Second Schedule,—

(i) the heading "Ministry of Commerce" and the entries thereunder, shall be omitted;

(ii) after the heading "Ministry of Food, Agriculture, Community Development and Co-operation" and the entries thereunder and before the existing heading "Ministry of Health, Family Planning, and Urban Development", the following heading and entries shall be inserted, namely: --

"MINISTRY OF FOREIGN TRADE AND SUPPLY

A. DEPARTMENT OF FOREIGN TRADE

I. Trade

1. Foreign trade.
2. State trading.
3. Protection of interests of Indian traders abroad.
4. Trade missions and delegations.
5. International commodity agreement other than wheat.
6. International trade agreements.
7. Import trade control.
8. Export trade control.
9. Control of prices of export goods.
10. Trade promotion, publicity and research.
11. ECAFE and its committee on industry and trade.
12. Export credit guarantee.
13. Fairs and exhibitions abroad and in India; government showrooms and trade centres abroad.
14. European Common Market.
15. U.N. Conference on Trade and Development.

II. Commercial Intelligence, Statistics and Publications.

16. Commercial intelligence and statistics.
17. Commercial publications including periodicals

III. Enemy Property

18. Reparations (other than German Industrial Equipment).
19. Control of trade with the enemy and enemy firms and custody of enemy property.

IV. Plantation Industries

20. Tea (The Tea Act, 1953); International Tea Regulation Scheme, export cess on tea.
21. Rubber (The Rubber Act, 1947).
22. Coffee (The Coffee Act, 1942).
23. Cardamom.

V. Coir Industry

24. Co-ordination of the development of the coir Industry; the Coir Industry Act, 1953.

VI. Textiles, Jute and Sericulture

25. Textiles, excluding industries relating to the production of non-cellulosic synthetic fibres (Nylon, terylene, polyester, acrylic, etc.).
26. Handloom industry.

27. Jute.
28. Sericulture.

VII. Village Industries

29. Handicrafts.

VIII. Tariffs and Customs

30. General Agreement on Tariffs and Trade.
31. Tariff policy (The Indian Tariff Act, 1934).
32. Tariff Commission (The Tariff Commission Act, 1951).
33. Tariff valuation.
34. Tariff protection to industries.
35. International Customs Tariff Bureau.
36. Commonwealth Tariff Preferences.
37. Customs nomenclature and similar matters.

IX. Other subjects

38. All Attached or subordinate offices or other organisations concerned with any of the subjects specified in this list, including:
    (i) Chief Controller of Imports and Exports, New Delhi.
    (ii) Textile Commissioner, Bombay.
    (iii) Jute Commissioner, Calcutta.
    (iv) Tariff Commission, Bombay.
    (v) Director General of Commercial Intelligence and Statistics, Calcutta.
    (vi) Commodity Boards viz. Tea Board, Coffee Board, Rubber Board, Coir Board, Silk Board.
39. State undertakings and government corporations relatable to subjects specified in this list, including:
    (i) The State Trading Corporation Ltd.
    (ii) The Minerals and Metals Trading Corporation Ltd.
    (iii) The Export Credit and Guarantee Corporation Ltd.

B. DEPARTMENT OF SUPPLY

1. Purchase, inspection and shipment of stores for the central government other than the items the purchase, inspection and shipment of which are delegated to other authorities by a general or special order.
2. Disposal of surplus stores.
3. Residual work of supply and disposal relating to the late war organisations including the Directorate General, Aircraft, including Civil Maintenance Units and Directorate General, Ship Repairs.
4. Administration of:
    (a) Directorate General of Supplies and Disposals:
    (b) National Test House, Alipore, Calcutta;
    (c) India Supply Mission, the United Kingdom;
    (d) India Supply Mission, the U.S.A.";

(iii) for the heading "Ministry of Health, Family Planning and Urban Development" and the entries thereunder, the following shall be substituted, namely: —

"MINISTRY OF HEALTH AND FAMILY PLANNING, AND WORKS, HOUSING & URBAN DEVELOPMENT

A. DEPARTMENT OF HEALTH

I. Union Business

1. Union agencies and institutes for research or for the promotion of special studies in medicine and nutrition including all matters relating to the:—
    (i) Central Research Institute, Kasauli.
    (ii) The All India Institute of Hygiene and Public Health, Calcutta.
    (iii) The Antigen Production Unit, Calcutta.
    (iv) The Malaria Institute of India, Delhi.
    (v) The Central Drugs Laboratory, Calcutta.
    (vi) College of Nursing, New Delhi.
    (vii) Lady Reading Health School & Ram Chand Lohia Infant Welfare Centre, Delhi.
    (viii) Hospital for Mental Diseases, Ranchi.
    (ix) Willingdon Hospital & Nursing Home, New Delhi.
    (x) Safdarjang Hospital, New Delhi.
    (xi) The Civil and Military Dispensary and the X-ray Installation, Simla.
    (xii) The Dispensaries at Dum Dum and Santa Cruz Airports.
    (xiii) Medical Stores, Depots and Factories.
    (xiv) B.C.G. Vaccine Laboratory, Guindy.
    (xv) Medical College, Pondicherry.
    (xvi) Contributory Health Service Scheme for Central Government Servants and members of their families in Delhi & New Delhi.
    (xvii) Serologist and Chemical Examiner to the Government of India, Calcutta.
2. Port quarantine (sea and air) seamen's and marine hospitals and hospitals connected with port quarantine.
3. Port and Air Port Health Organisations.
4. Medical Examination of Seamen.
5. International sanitary regulations.
6. World Health Organisation (WHO).
7. Rockefeller Foundation and Ford Foundation.
8. Prevention of Food Adulteration Act, 1954 and the Central Food Laboratory set up thereunder.
9. Higher training abroad in medical and allied subjects.
10. Assistance under the Colombo and Point Four Programme.
11. National Malaria Eradication Programme.
12. National Filaria Control Programme.

II. List of business for Legislative and Executive purposes in respect of Union Territories.

13 Local Government, that is to say, the constitution and powers of municipal corporations (excluding the Municipal Corporation of Delhi). Municipalities (excluding the New Delhi Municipal Committee), district boards and other local self-government administrations excluding Panchayati Raj institutions.
14. The Delhi Water Supply and Sewage Disposal Committee of the Municipal Corporation, Delhi.
15. Public health and sanitation; water supply; sewage and drainage; hospitals; and dispensaries.
16. Pilgrimages other than pilgrimages to places outside India.
17. Burials and burial grounds; cremations and cremation grounds.
18. Inns and Inn-keepers.
19. Supply and distribution of cinchona and quinine.
20. Scientific societies and associations pertaining to subjects dealt with in the Department.
21. Charitable and religious endowments pertaining to subjects dealt with in the Department.

III. List of business with which the Central Government deal in a Legislative capacity only for the Union and in both legislative and executive capacities for all Union Territories —

22. The medical profession and medical education.
23. The nursing profession and nursing education.
24. The pharmaceutical profession and pharmaceutical education.
25. The dental profession and dental education.
26. Homoeopathy.
27. Lunacy and mental deficiency.
28. Drugs standards.
29. Objectionable advertisements relating to drugs and medicines.
30. Prevention of the extension from one state to another of infectious or contagious diseases affecting human beings.
31. Adulteration of Stuffs and Drugs.
32. Indigenous system of medicine.
33. The Central Health Service.

IV. Miscellaneous Business.

34. The Medical Council of India.
35. The Central Council of Health.
36. Resettlement of demobilised medical and auxiliary medical personnel.

37. Red Cross except problems relating to protection of prisoners of war and other war victims.
38. Dental Council of India.
39. Indian Nursing Council.
40. Pharmacy Council of India.
41. Indian Pharmacoepia Committee.
42. B.C.G. Vaccination against Tuberculosis.
43. Concession of medical attendance and treatment for central government servants other than (i) those in Railway Service (ii) those paid from Defence Services Estimates (iii) officers governed by the All India Service (M.A.) Rules, 1954 and (iv) officers governed by the Medical Attendance Rules, 1955.
44. Medical examination and medical boards for Central Civil Services (other than those controlled by the Ministry of Railways and those paid from Defence Estimates excepting Civilian Services).
45. Indian Red Cross Society.
46. The Lady Harding Medical College and Hospital, New Delhi, and the Kalavati Saran Children's Hospital, New Delhi.
47. The Central Council of Local Self-Government.
48. Vallabh Bhai Patel Chest Institute.
49. All India Institute of Physical Medicine and Rehabilitation, Bombay.
50. Spas and health resorts.
51. Drinking water supply and sanitation.
52. Collection and collation of information with regard to local bodies, all states and union territories.
53. Trachoma Pilot Project.
54. Leprosy Control Scheme.
55. Reimbursement of customs duty on gifts of non-consumable medical stores received from abroad.
56. The Indian Council of Medical Research, New Delhi.
57. The All India Institute of Medical Sciences, New Delhi.
58. Chittaranjan National Cancer Research Centre, Calcutta.
59. Central Institute of Research on indigenous Systems of Medicine, Jamnagar.
60. Post-Graduate Training Centre, Jamnagar.
61. Physiotherapy Training Centre, King Edward Memorial Hospital, Bombay.
62. Central Leprosy Teaching and Research Institute, Madras.
63. All India Mental Health Institute, Bangalore.
64. Nutrition Research Institute, Coonoor.
65. Offences against laws with respect to any of the matters in the above list.
66 Inquiries and statistics for the purpose of any of the matters in the above list.
67. Fees in respect of any of the matters in the above list, but not including fees taken in any court.

B. DEPARTMENT OF FAMILY PLANNING

1. Policy and organisation for family planning.
2. Maternity and child welfare.
3. (i) Organisation and direction of education, training and research in all aspects of family planning, including higher training abroad.
   (ii) Family Planning Training and Research Centre, Bombay.
   (iii) Family Planning Training, Demonstration and Experimental Centre, Ramanagram.
4. Production and supply of aids to family planning.
5. Liaison with foreign countries and international bodies as regards matters relating to family planning.
6. Inquiries and statistics relating to family planning.
7. Demographic Training and Research Centre, Bombay.

C. DEPARTMENT OF WORKS, HOUSING AND URBAN DEVELOPMENT.

1. Property of the union (not being railway, naval, military or air force works or being the property of the Department of Atomic Energy) except (i) buildings, the construction of which has been financed otherwise than from the civil works budget and (ii) buildings, the control of which has at the time of construction or subsequently, been permanently made over by the Department of Works, Housing and Urban Development to another Ministry.
2. All government civil works and buildings including those of union territories excluding roads and excluding works executed by or buildings belonging to the Railways. P & T and the Department of Atomic Energy.
3. Horticultural operations
4. Indian Service of Engineers.
5. Administration of government estates under the control of the Department of Works, Housing and Urban Development at Delhi, Bombay, Calcutta, Simla, Nagpur, etc. Move of offices outside Delhi including the satellite townships around Delhi; deconcentration of offices from Bombay and Calcutta; location of new offices in Delhi, Calcutta, Bombay and Simla.
6. Allotment of accommodation in Vigyan Bhavan.
7. Administration of the Requisitioning and Acquisition of Immovable Property Act, 1952.
8. Control and administration of the Grand Hotel, Simla and Government Hostels.
9. Administration of Delhi Hotels (Control of Accommodation) Act, 1949.
10. The Public Premises (Eviction of unauthorised occupants) Act, 1958.
11. Administration of Rehabilitation Market—Raisina Road Market; Sarojini Market, Sarojini Nagar; New Central Market, Connaught Circus; Kamala Market and Pleasure Garden Market.
12. Formulation of housing policy and programme, Review of implementation of the Plan schemes. Collection and dissemination of data on housing building materials and building techniques. General measures for reduction of building costs. International co-operation and technical assistance in housing.
13. Stationery and printing for the Government of India including official publications.
14. Urban Development including slum clearance schemes and the jhuggi and jhonpri removal scheme.
15. Town and Country Planning; matters relating to Calcutta Metropolital Planning Organisation.
16. Scheme of large scale acquisition, development and disposal of land in Delhi.
17. Delhi Development Authority.
18. Improvement Trusts.
19. Master Plan of Delhi. Co-ordination of work in respect of the Master Plan and slum clearance in the Union Territory of Delhi.
20. Administration of the Delhi Development Act, 1957.
21. The Delhi Rent Control Act, 1958; and evictions in Delhi.
22. Development of government colonies in Delhi.
23. Allotment of government lands in Delhi.
24. All attached or subordinate offices or other organisations concerned with any of the subjects specified in this list.
25. Public sector projects falling under the subjects included in this list except such projects as are specifically allotted to any other Department.

(iv) for the heading "Ministry of Industrial Development and Company Affairs" the heading "Ministry of Industrial Development, Internal Trade and Company Affairs" shall be substituted;

(v) under the heading "Ministry of Industrial Development, Internal Trade and Company Affairs", after the sub-heading "A. Department of Industrial Development" and the entries thereunder, the sub-heading "B. Depart-

ment of Internal Trade" and the following entries shall be inserted, namely: —

"B. DEPARTMENT OF INTERNAL TRADE

I. Trade

1. Internal Trade.
2. Inter-State Trade; the Spirituous Preparation (Inter-State Trade and Commerce) Control Act, 1955.
3. Control of Futures Trading (The Forward Contracts (Regulation) Act, 1952).
4. Essential Commodities Act (supply, prices and distribution of essential commodities not dealt with specifically by any other ministry).

II. Trade Marks, etc.

5. The Trade and Merchandise Marks Act, 1958.
6. Emblems and Names (Prevention of Improper Use) Act, 1950.
7. Standards of weights and Measures.

III. Village Industries

8. Co-ordination and development of village industries including Khadi.
9. Ambar Charkha.

IV. Other subjects

10. All attached or subordinate offices or other organisations concerned with any of the subjects specified in this list, including Forward Markets Commission, Bombay.";

(vi) for existing sub-heading "B. Department of Company Affairs" the sub-heading "C. Department of Company Affairs" shall be substituted;

(vii) after the heading "Ministry of Railways (Railway Board)" and the entries thereunder and before the heading "Ministry of Steel and Heavy Engineering", the heading "Ministry of Shipping and Transport" and the entries thereunder, shall be inserted.

In another notification issued on the same day, the President has made the following further amendment to the Government of India (Allocation of Business) Rules, 1961.

NOTIFICATION

(a) in the First Schedule,-

(i) for entry 3, the following entry shall be substituted, namely :-

"3. Ministry of Education and Youth Services";

(ii) for entry 14, the following entry shall be substituted, namely :-

"14. Ministry of Petroleum and Chemicals and Mines & Metals:

(i) Department of Petroleum.

(ii) Department of Chemicals.

(iii) Department of Mines & Metals.";

(iii) for entry 16, the following entry shall be substituted, namely : —

"16. Ministry of Steel and Heavy Engineering";

(iv) for entry 18, the following entry shall be substituted, namely : —

"18. Ministry of Shipping and Transport";

(b) in the Second Schedule,—

(i) for the heading "Ministry of Education the heading "Ministry of Education and Youth Services" shall be substituted;

(ii) for the heading "Ministry of Petroleum and Chemicals" and the entries thereunder, the following shall be substituted, namely :—

"MINISTRY OF PETROLEUM AND CHEMICALS AND MINES & METALS

A. DEPARTMENT OF PETROLEUM

1. Production, supply, distribution and prices of petroleum and petroleum products.
2. Exploration for and exploitation of oil resources in India including the setting up of participatory projects e.g., Indo-Stanvac Petroleum Project, Oil India Ltd., etc.
3. Setting up of oil refineries in India.
4. Production of refinery products by—
   (i) Standard Vacuum Refinery Company, Bombay;
   (ii) Burmah-Shell Refinery, Bombay;
   (iii) Caltex Refinery, Visakhapatnam; and
   (iv) Assam Oil Company Ltd, Digboi.
5. Setting up of lubricating oil plants.
6. Administration of the Petroleum Act, 1934, and the Rules made thereunder.
7. Setting up of a distribution organisation for the sale of petroleum and petroleum products.
8. Planning, development and control of, and assistance to, all industries dealt with by the Department.
9. All attached or subordinate offices or other organisations concerned with any of the subjects specified in this list.
10. Public sector projects falling under the subjects including in this list except such projects as are specifically allotted to any other department.

B. DEPARTMENT OF CHEMICALS

1. Fertilizers.
2. Petro-chemicals.
3. Industries relating to the production of non-cellulosic synthetic fibres (Nylon, terylene, polyester, acrylic, etc.).
4. Synthetic rubber.
5. Drugs and other fine chemicals.
6. Plastics, including the industry of fabrication of plastics.
7. Dyestuffs.
8. Caustic soda and Soda ash.
9. Chlorine.
10. Sulphuric acid.
11. Soaps and detergents.
12. Insecticides.
13. Antibiotics.
14. Power alcohol.
15. Planning, development and control of, and assistance to, all industries dealt with by the Department.
16. All attached or subordinate offices or other organisations concerned with any of the subjects specified in this list.
17. Public sector projects falling under the subjects included in this list except such projects as are specifically allotted to any other department.

C. DEPARTMENT OF MINES AND METALS

1. Production, supply, distribution and prices of coal and coke.
2. Exploration of lignite deposits in India.
3. Setting up of synthetic oil plant based on coal and low temperature carbonization plants for the production of smokeless domestic coal.
4. Administration of Coal Mines (Conservation and Safety) Act, 1952.
5. Administration of Coal Grading Board Act, 1955.
6. Administration of the Coal Bearing Areas (Acquisition and Development) Act, 1957.
7. Regulation of mines and minerals development under the Mines and Minerals (Regulation and Development) Act, 1957 and other union laws including questions concerning various states and incidental business in respect of these.
8. All metals (other than those dealt with in the Ministry of Steel & Heavy Engineering) such as aluminium, zinc, copper and all minerals not covered by entries 1 to 7 above.
9. Planning, development and control of, and assistance to, all industries dealt with by the department.
10. Geological Survey of India.
11. Indian Bureau of Mines.
12. All other attached or subordinate offices or other organisations concerned with any of the subjects specified in this list.
13. Public sector projects falling under the subjects included in this list except such projects as are

specifically allotted to any other department ministry.";

(iii) for the heading "Ministry of Steel, Mines & Metals" and the entries thereunder, the following shall be substituted, namely :—

"MINISTRY OF STEEL & HEAVY ENGINEERING

1. Steel plants in the public and private sectors, the rerolling industry and ferro-alloys including all future development.
2. Development of ore mines, coal washeries etc., for steel plants.
3. Production, distribution, prices, imports and exports of iron and steel and ferro-alloys.
4. Planning, development and control of, and assistance to all iron and steel industries.
5. The following public sector projects :
   (i) Heavy Engineering Corporation, Ranchi.
   (ii) Mining and Allied Machinery Corporation, Durgapur.
   (iii) Triveni Structurals, Allahabad.
   (iv) Tungabhadra Structurals Limited; and
   (v) Bharat Heavy Plates and Vessels.
6. Other public sector projects falling under the subjects included in this list, except such projects as are specifically allotted to any other department.
7. All attached or subordinate offices or other organisations concerned with any of the subjects specified in this list.";

(iv) for the heading "Ministry of Transport and Shipping" the heading "Ministry of Shipping and Transport" shall be substituted.

Railway Budget: 1969-70

THERE WILL be no increase in passenger fares and freight rates during the coming financial year, according to the Railway budget for 1969-70, presented to the Lok Sabha on February 19, by the union Minister for Railways, Dr Ram Subhag Singh. The budget shows a small surplus of nearly Rs 2 crores, the first surplus in four years, which the Railway Minister said would be realised unless costs went up for reasons beyond the Railways' control. Extracts from the Railway Minister's speech are reproduced below:

In the revised estimates for 1967-68, which were presented to this House a year ago to the day, it was anticipated that after meeting fully all the working expenses and providing Rs 95 crores for depreciation and Rs 10 crores for the pension fund there would be a net revenue of Rs 118.49 crores which was Rs 22.59 crores short of the dividend payable to the general revenues. When the accounts for the year were closed, the net revenue was reduced to Rs 110 crores. This deterioration was due primarily to shortfall in gross traffic receipts, and despite a reduction in both working and miscellaneous expenditure. The dividend payable to general revenues had increased by Rs 45 lakhs. The gap between net revenue and the dividend due was Rs 31.53 crores and was met by withdrawal from the revenue reserve fund.

Significant Improvement

I am happy to inform the House that the picture of the current year is somewhat better. Compared to the near stagnation in the last two years, there has been an increase of 5.7 per cent in the average of the general index of industrial production (base 1960=100) in the first eight months of 1968 over 1967. Agricultural production for crop year ending June, 1968, has registered significant improvement in the production of foodgrains, oilseeds and other crops. The derived demand for rail transport has reflected the improvement in the economy, and in the first nine months of the current financial year 5.5 million tonnes more of revenue-earning goods traffic has been lifted. There is reason to hope that the revenue earning tonnage this year will reach the level of 170.5 million tonnes showing an increase of a little more than eight million tonnes instead of the seven million anticipated in the budget. Taking into account the rationalisation of the coal tariff effected from November last, goods earnings for the current year are expected to be Rs 21 crores more than the budget estimate of Rs 545 crores. It is a matter of satisfaction that the Railways have been able to carry all the additional traffic in the current year although operation on a number of zonal railways was handicapped for several reasons during the course of the year. There were a number of unusually long interruptions in rail communications due to floods—three weeks in July in Rajasthan, four weeks in August on the Bulsar-Baroda section of the western railway, about a month in October on the metre gauge line to Assam and over three months on the broad gauge line, and a complete suspension of traffic over a portion of the East Coast route on the south-eastern railway which took nearly four months to repair. There were other difficulties too, such as those caused by the strike by firemen of the southern and south-central railways in July and the 'go slow' attitude of some of the running staff of the eastern railway in September.

Special Demand

I would like to mention the specially difficult transport demand that was made on the Railways to move large quantities of foodgrains from Punjab and Haryana out of the last bumper harvest gathered in these two states. It was a considerable achievement on the part of the Railways to have moved 1.7 million tonnes of wheat from Punjab and Haryana to various parts of the country within a period of three months, from May to July. This massive movement coupled with the breaches on the western and south-eastern railways created difficulties for the movement of coal in the first half of the year. But here again, the special effort made by the Railways bore fruit and they moved about six per cent more coal by December this year than in the corresponding period of the previous year. The higher tempo of movement that has been achieved will be kept up throughout this busy season and I have no reason to doubt that the still higher levels of traffic that we can expect in the next and the following years as the fourth five-year Plan gathers momentum will be carried by the Railways with benefit to themselves and to the country's overall economy.

While the Railways have done well this year in goods traffic, passenger traffic has been disappointing with a fall in the first four months of the year as compared to the traffic level of the corresponding period of the previous year. This fall seems to have been due to an early monsoon and the floods and breaches I have mentioned earlier. In suburban traffic there was a heavy shift from the booking of single journey tickets to the booking of season tickets obviously because the increase made in the beginning of the year was much less in season ticket fares than in single journey fares. Perhaps, there has also been some diversion of short distance traffic from rail to road due to our having increased the minimum railway fare from 15 to 20 paise. Frankly speaking I am not unhappy over these developments since increase in the proportion of season tickets reduces pressure on the booking windows and the diversion of short distance traffic to the road helps in removing congestion on our trains. I may also mention that fares charged for short distances do not cover full costs. Since August, passenger traffic has shown signs of steady revival, but I am not hopeful that the earnings

from passenger traffic in the current year will reach the budget estimate of Rs 278 crores. The revised estimate has been placed at Rs 12 crores less, i.e., at Rs 266 crores. The revised estimate for the gross traffic receipts for the current year is placed at Rs 902.15 crores which makes for an improvement of Rs 9.05 crores on the budget estimate.

There is an increase of about Rs 26 crores in the ordinary working expenses. The bulk of the increase is in the staff bill due to the last revision of dearness allowance from September 1968 accounting for Rs 6.91 crores, revised rates of travelling and running allowances from March 1, 1968 accounting for Rs 3.92 crores and merger of a portion of dearness allowance with pay from December 1968 accounting for Rs 4.92 crores. These increases make a total of Rs 15.75 crores. But against this we have been able to secure some economies. The net increase in the staff bill comes to Rs 11.25 crores. I will not like to burden the honourable members with further details of the increases in expenditure beyond mentioning just a few items where the increases have been sizable —that on repairs and maintenance of Rs 6.09 crores of which repairs to floods damage account for Rs 3.20 crores, on hire for telecommunication facilities belonging to the Posts and Telegraphs Department including some additional arrear payments amounting to Rs 1.50 crores, and on fuel of Rs 4.79 crores mainly on account of increase in prices of coal, excise duty on diesel oil and increase in electricity tariffs. Honourable members will appreciate that the entire increase in ordinary working expenses is due to post-budget developments over which the Railways have had no control. In fact, the total of these increases is significantly more than the actual increase in the revised estimate of ordinary working expenses, and I am happy to point out to the House that the Railways' efforts for achieving economy have begun to bear some fruit. In 1967-68 there was no increase in the total number of stuff and in the current year I am expecting that the increase will be proportionately less than the expected increase of eight million tonnes in traffic. This is encouraging since nearly two-thirds of the working expenses is on staff. I shall spare no effort to impress on the Railways that they must continue to exert themselves to the utmost to raise the productivity of the staff.

Reduction in Depreciation Reserve

Taking advantage of the reduction of about Rs 6 crores in the estimate of expenditure chargeable to the depreciation reserve fund, I have reduced the contribution to fund by Rs 5 crores, i.e., from the budget estimate of Rs 100 crores to Rs 95 crores.

In the ultimate picture the revised estimates show that after meeting fully all the working expenses and providing Rs 95 crores for depreciation and Rs 10 crores for the pension fund we will be left with a net revenue of Rs 141.32 crores which will be short by only Rs 10.01 crores of our dividend liability of Rs 151.33 crores and this shortfall will be met from the revenue reserve fund. I can assure the House that with the post-budget burdens thrown on them, the railways could not have done any better.

The works programme for the current year was for a net expenditure of Rs 272 crores. The revised estimate is Rs 15 crores less. There is a reduction of Rs 9 crores under rolling stock, of about Rs 3 crores under stores suspense, and of Rs 4 crores under manufacture and miscellaneous advances suspense. A further reduction in the net expenditure has been contributed by an increase of about Rs 5 crores under other credits. These reductions have been offset by an increase of about Rs 1.5 crores under electrification and sundry increases under some other heads. I may mention that it seems very unlikely that deliveries of wagons from the private sector will exceed 14,500 against 16,800 provided for in the budget. This accounts for a saving of Rs 1.85 crores.

While on the works programme, I would like to make a brief mention of the principal works completed or in progress in this year. The remaining portion of the Salem-Bangalore line from Dharmapuri to Bangalore of the southern railway, the Dhrangadhra-Halvad portion of the Jhund-Kandla broad gauge link of the western railway and the broad gauge line from Renigunta to Tirupati of the southern railway have been opened to traffic, and more recently the Delhi Avoiding Line of the northern railway. Other constructions are progressing according to schedule. The conversion of the Miraj-Kolhapur section of the south-central railway from metre to broad gauge has been taken up. Three hundred kilometres of new double line are expected to be opened to traffic in the current year and 850 kilometres are at various stages of progress. The programme of modernisation of signalling is going ahead and the expansion of the microwave network on important trunk routes so important for the improvement of train operation, figures in the works programme both of the current year and the next. Electrification of the Nandgaon-Bhusaval section of the central railway is expected to be completed this year and that of the Andul-Calcutta chord link of the eastern railway during the next year. Work is proceeding on the Kanpur-Tundla section of the northern railway and Rourkela-Durg section of the south-eastern railway and field work is expected to commence soon on the Virar-Sabarmati section of the western railway.

Budget Estimate

I come now to the budget for 1969-70. Proceeding on the experience of the current year and the best projection that we have been able to make at present of the traffic level likely to be attained on the Railways at the end of the fourth five-year Plan our present expectation is that the Railways will lift about nine million tonnes of additional revenue earning traffic next year. I expect that the revival of passenger traffic will be maintained and there will be an increase of about 3 per cent next year. I expect goods earnings to be Rs 600 crores, passenger earnings to be Rs 273 crores, other coaching earnings Rs 47.5 crores and sundry earnings Rs 30.5 crores. After allowing for an increase in unrealised earnings of about Rs 4.2 crores, the budget estimate of gross traffic receipts for the next year has been placed at Rs 946.8 crores, making for an increase of about Rs 45 crores over this year. Ordinary working expenses have been estimated at Rs 665.35 crores, about Rs 25 crores higher than of this year of which Rs 22.65 crores will be on staff cost, for the same reasons for which there has been increase in staff cost, in the current year, viz., increase in dearness allowance, merger of a portion of dearness allowance with pay, and increase in running and travelling allowances. There will also be the usual increase on account of annual increments. There will be an increase of Rs 4.28 crores in the expenditure on fuel both because of the increase in the price of coal and for carrying the anticipated additional traffic.

I propose retaining the appropriations to the depreciation reserve fund and to the pension fund at the same level as in the current year, viz., Rs 95 crores and Rs 10 crores, respectively. According to the budget estimates the net revenue is expected to be Rs 160.92 crores which will leave a surplus of a little under Rs 2 crores after discharging fully the estimated dividend liability of Rs 159.01 crores, nearly Rs 8 crores more than of last year. Considerable care having been taken in the formulation of the budget estimates, I can hope that unless costs increase for reasons on which the Railways do not have control, the anticipated surplus will actually be realised.

The estimate of works expenditure for the next year is Rs 255 crores, of which Rs 132.6 crores is chargeable to capital, Rs 95 crores to depreciation reserve fund, Rs 19 crores to the development fund and Rs 8.4 crores to revenue. Of this, rolling stock and machinery, including advances to

manufacturers for materials, account for about Rs 118 crores and net expenditure on works is expected to amount to Rs 134 crores, and it is hoped to achieve a reduction of about Rs 4 crores under 'inventories'. The works programme has been kept at a reasonable minimum level.

Among the important new works included in the programme are the doubling of some more patches on the Grand Trunk route between Agra and Bina on the central railway, and between Kazipet and Balharshah on the south-central railway, some patches between Jalarpet and Cochin on the southern railway and between Alnia and Kota on the western railway. The restoration of the railway line between Thurbhita and Bhaptiahi on the north-eastern railway and the doubling of the Rajabehra-Bokaro Steel City and Muri-Hatia sections of the south-eastern railway to serve the requirements of the Bokaro Steel Plant are also in the programme.

We are at the threshold of the fourth five-year Plan. The best projection of traffic growth that we have been able to make at present in consultation with the Planning Commission and the concerned ministries indicates an increase of 62 million tonnes over the traffic of the current year at the end of the fourth Plan. More than half of this increase will be contributed by movements of raw materials to the steel plants including coal, coal for other consumers and iron ore for export, the balance being made up of other goods including about three million tonnes of finished products from steel plants and three million tonnes of cement.

The strategy of development we are proposing to follow during the fourth five-year Plan will aim at securing the fullest utilisation of the assets that we have already created or acquired, whether it be line capacity or improved marshalling facilities or modernisation of traction, signalling and workshop facilities or rolling stock. Through better utilisation of these assets we shall obtain higher productivity from our manpower resources also and the two together will, we hope, contribute substantially towards economy of scale such as was achieved year after year in the second Plan and the early years of the third Plan when traffic had been steadily increasing.

Surplus Budget

I have been able to present to the House a budget estimate for the next year with a small surplus of nearly Rs 2 crores after meeting fully the Railways' dividend liability to the general revenues, estimated at Rs 159 crores. I am not proposing any increase in fares and freights. But I should remind the House that this slight improvement in the budgetary position has come after three successive years of depressed financial position of the Railways. Although the Railways have been able to meet fully the dividend liability in all these years by drawing from the revenue reserve fund, the fund is now left with only a nominal balance of Rs 1.29 crores. The development fund had been completely used up last year and we will not be able to make any contribution to the fund this year and hardly any in the next. By the end of 1969-70 we would be borrowing from the general revenues Rs 45.80 crores on account of development fund expenditure. Fortunately, the position of the depreciation reserve fund is relatively satisfactory. It is expected to have a balance of Rs 86.01 crores at the end of the current year and Rs 92.30 crores at the end of 1969-70. The balance in the pension fund at the end of the current year will be Rs 62.55 crores and adequate for meeting current liabilities. But with a substantial number of railway employees opting this year for the pension scheme in preference to the provident fund and with the merger of a portion of dearness allowance with pay, pensionary liabilities will increase significantly, and therefore, our contributions to the pension fund will have to increase in the coming years.

The newly created marketing and sales organisation has been doing useful work in securing traffic and in extending container services. A new five-tonne container service was introduced between Madras and Bangalore in January this year and we expect to soon introduce container services between Delhi-Howrah, Bombay-Madras and Bombay-Secunderabad. A new scheme of freight forwarders under which the collection and delivery services are performed by road hauliers and the line haulage is provided by the Railways has commenced between Delhi and Bombay. If this experiment proves successful, we intend extending this scheme to other trunk routes and it should prove a step forward in rail-road co-ordination and should benefit both the road hauliers and the Railways.

Ticketless Travel

I would like to draw the attention of the honourable members to the problem of ticketless travel which is fairly widespread. Every month over nine lakhs of passengers are detected travelling without tickets. This deprives Railways of several crores of revenue and has also become a 'law and order' problem. While a massive drive has been launched with the help of state governments and the Railway Protection Force against this evil and some encouraging results have been achieved, it is necessary to tighten the penalties against the ticket dodgers. A bill to this effect is coming up before the House and I would appeal for this legislation to be passed as expeditiously as possible.

The three rolling-stock production units of the Railways have been functioning satisfactorily. The Chittaranjan Locomotive Works expect to turn out about 68 steam locomotives, 53 electric locomotives and 24 diesel shunters during this year and to increase their production to 70 steam locomotives, 60 electric locomotives and 48 diesel shunters next year. The Integral Coach Factory at Madras is expected to build 730 coach shells and furnish 634 of them during the current year, and 740 and 670 respectively next year. The Diesel Locomotive Works at Varanasi are expected to manufacture 68 board gauge and 10 metre gauge locomotives during the current year and 75 and 30 respectively next year. All the three production units have taken up some new lines of production, metre gauge locomotives and diesel shunters in Chittaranjan Locomotive Works, electric multiple units and

RAILWAY BUDGET AT A GLANCE

(Rs crores)

	Actuals 1967-68	Budget Estimate 1968-69	Revised Estimate 1968-69	Budget Estimate 1969-70
Gross traffic receipts	818.14	892.50	902.15	946.80
Ordinary revenue working Expenses (Net)*	588.22	614.01	640.00	665.35
Appropriation to depreciation reserve fund from revenue	95.00	100.00	95.00	95.00
Appropriation to pension fund	10.00	10.00	10.00	10.00
Net miscellaneous expenditure (including cost of works charged to revenue)	14.92	15.49	15.83	15.53
Total	708.14	739.50	760.83	785.88
Net railway revenue	110.00	153.00	141.32	160.92
Dividend to general revenues	141.53	152.00	151.33	159.01
Net surplus (+)/ Deficit (—)	(—)31.53	(+)1.00	(—)10.01	(+)1.91

* After taking credit for recoveries.

railcars in the Integral Coach Factory and metre gauge diesel locomotives in Diesel Locomotive Works. The value of their total output exceeds Rs 59 crores per year.

During the current year up to end of October 1968, 23 new trains have been introduced, 13 on the broad gauge and 10 on the metre gauge, and the runs of 22 existing trains, eight on the broad gauge and 14 on the metre gauge, have been extended. As regards suburban services, 33 new trains have been introduced, 24 on the broad gauge and nine on the metre gauge, and the runs of 10 trains extended. I am not oblivious of the fact that the suburban services particularly in Bombay area, need further augmentation and improvement and it will be our endeavour to do so, but we have been handicapped by the need to replace a large number of old E.M.U. coaches in service in the Bombay suburban area and our difficulty at present to produce such coaches in larger numbers. Nevertheless, the Bombay railways are also studying the feasibility of running 12 coach suburban trains which would substantially relieve the peak-hour overcrowding. A number of new long distance trains have also been introduced accounting for over 3,000 train kilometres per day, including the Paschim Express between Bombay Central and Amritsar. It is proposed to introduce shortly the Rajdhani Express, a bi-weekly service, between New Delhi and Howrah, which will cover the distance in less than 18 hours. About 115 third class sleeper coaches have been added to the 1,260 in service at the beginning of this year and more are to be built next year.

Honourable members are aware that all the Railways except the north-eastern and the north-east frontier railways are organised on the divisional pattern. With the increasing complexity of railway operation and the increases in work-load expected during the fourth Plan period, it has become necessary to introduce the divisional system on these two Railways also. The north-eastern railway will have four divisions with headquarters at Izatnagar, Lucknow, Varanasi and Samastipur which last will include the West Katihar District of the north-eastern railway. So far as the north-east frontier railway is concerned, all the operating districts are being upgraded to divisions except that at Tinsukia there will be only a transportation division till the work-load justifies its becoming a full division.

Better Catering Services

Most of the recommendations of the Railway Catering and Passenger Amenities Committee under the chairmanship of my colleague Mr Parimal Ghosh, which reported in February 1968, are in the process of implementation and will, it is hoped, lead to greater customer satisfaction with the catering services. Packed meals of various kinds are now being supplied to the travelling public and if these find favour with them it may be possible to release some capacity now taken up by restaurant cars and provide instead more accommodation for passengers on important trains.

Honourable members must have seen Part I of the report of the committee under the chairmanship of Mr K. N. Wanchoo, retired Chief Justice of India, which has been reviewing the position of accidents on the Indian Railways since the appointment of the Railway Accidents Committee, 1962 (Kunzru Committee). In this report the committee has noted the significant decrease of about 35 per cent in the average annual number of accidents during the five years ending 1967-68 as compared to the six-year period ending 1962-63. A statement containing a summary of the observations and recommendations made by the committee in their report and the views of the Ministry of railways thereon is being circulated to honourable members.

The highpowered Committee on Security and Policing on Railways under the chairmanship of Mr Shantilal Shah submitted its report on October 10, 1968. The recommendations in this report, some of them very far reaching, are now under study.

Several decisions taken this year have improved the service conditions of railway staff substantially. The merger with pay of the full dearness allowance at the twelve-monthly average price index of 175 has substantially increased the pension payable to staff on retirement as well as the government contribution to the provident fund of those who have not opted for the pension scheme. It has also increased their entitlement to house rent allowance, city compensatory allowance and travelling allowance. The rates of travelling allowance and running allowance have also considerably increased after their revision with effect from March 1, 1968. A fresh opportunity has been given to Railway employees who are still on the provident fund scheme of retirement benefits to opt for the pension scheme and the date for such option has been extended to March 31, 1969 following the decision for merger of a portion of dearness allowance with pay.

Welfare Measures

As in previous years welfare measures for staff, particularly medical facilities to railway employees and their families, have been augmented during the current year. A hospital has been built at Lalgarh on the Bikaner division of the northern railway, and two health units on the north-east frontier railway and one on the southern railway have been converted into hospitals. Five hundred and twenty eight general beds and 120 tuberculosis beds have been added during the current year. The number of specialised units for diagnosis and treatment are being increased and additional equipment has been provided in railway hospitals. The retired railway employees' contributory health scheme has been extended to cover the dependent children of retired employees also. The railway medical services are participating actively in the family planning programme, and the response from railway staff has been encouraging. The expansion of railway schools has continued as also the utilisation of the subsidised hostels, the scholarships for technical education and the services of mobile libraries, etc. Sports activities continued to be assisted, and the Railways won eight national championships and 24 railwaymen were members of the Indian teams which participated in international contests. Six railwaymen won the coveted Arjuna Award in 1967.

Relations between organised labour and the Railway administration were generally cordial during the year and the Permanent Negotiating Machinery continued to function usefully. I have had the pleasure of being associated with the working of the Railways in the past and had come to acquire a high opinion of the calibre of railwaymen of all ranks. I trust that in my renewed association with them, I shall have opportunity to form a still better opinion of their ability and devotion to duty and that they will continue to give of their best to the Railways and the country.

Honourable members will share my great concern that the Railways are increasingly becoming the target of attack and violence arising from diverse matters not even remotely connected with the Railways or their operation. This most disconcerting trend seems, if at all, to be on the increase. I need not catalogue the numerous instances of such lawless activities which have been making the task of railwaymen increasingly difficult and hazardous and are becoming a growing impediment to railway operation. Quite often our efforts to improve rail services are thwarted by these activities and by damage done to our rolling stock and installations. In sharing my worries with the honourable members I would appeal to leaders of public opinion in and outside the House to lend their weight so that the Railways can run smoothly in every corner of the country.

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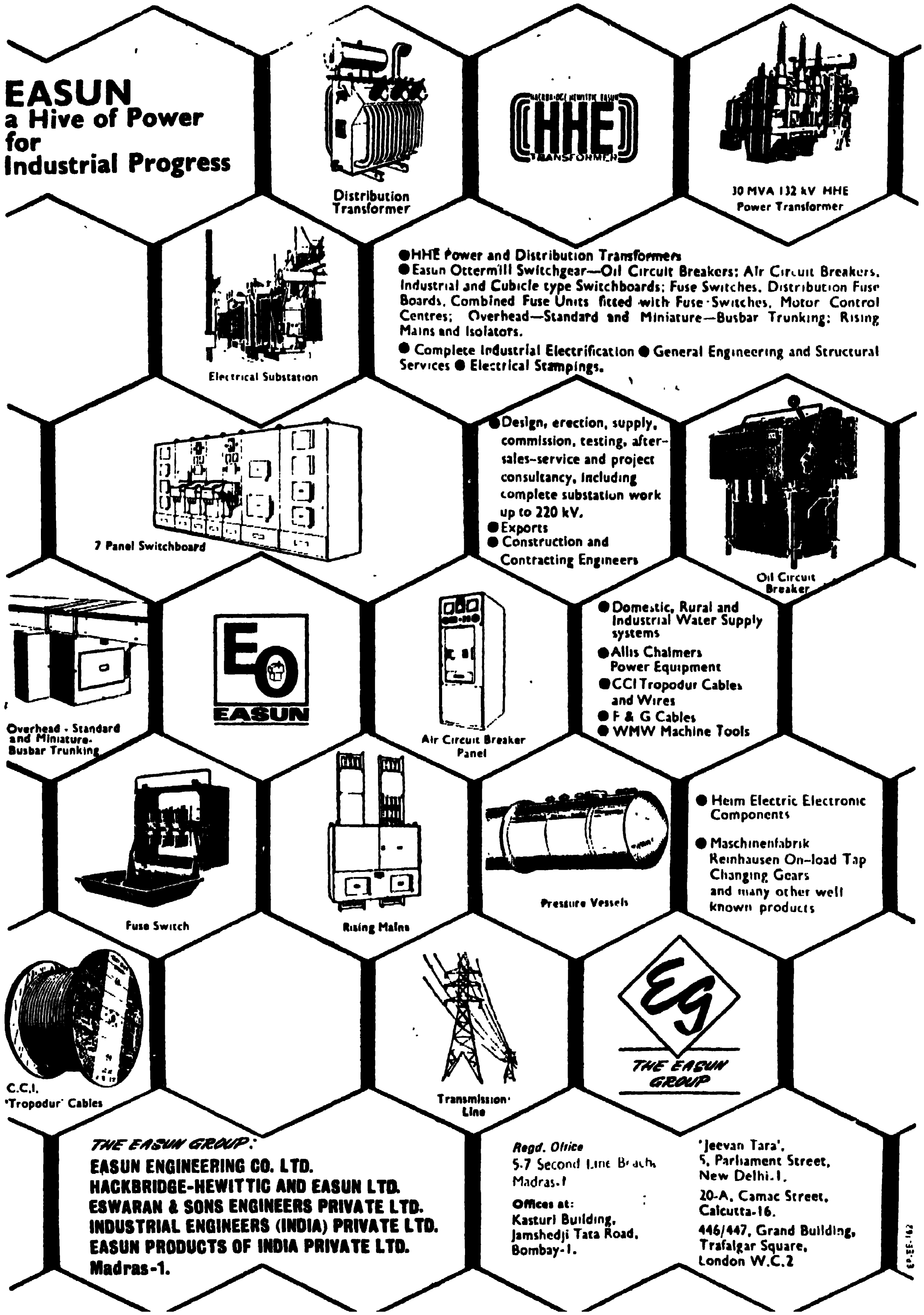

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A SEPTUAGENARIAN BUDGET

The Pips Are Squeaking

MR MORARJI Desai, said the papers, was 73 on March 5. The central budget for 1969-70, which he had presented to Parliament a few days earlier, is perhaps no younger in spirit. Speaking of the "need for maintaining the right balance between consumption and investment, resources and outlays, economic growth on the one hand and external viability on the other and, indeed, between larger social values and purely economic consideration", Mr Desai, in his budget speech, expressed the hope that "honourable members will now appreciate why economic planners are often regarded as some of the finest exponents of the art of tight-rope dancing". Tight-rope dancing is not only a fine art but is also strenuous gymnastics and, in the practice of it, age, no doubt, has the advantage of experience but it has the disadvantage too of failing stamina. It cannot be denied that, as a strategist of economic expansion, the Deputy Prime Minister and Minister for Finance has faltered and fumbled in more than one place.

This budget may be described, without disrespect to its author, as a septuagenarian budget, for its outstanding quality is its mood of philosophic resignation tempered by a wishful longing to leave the world a better place than one found it. There can, of course, be no doubt at all about Mr Desai's desire to do good to the national economy by making a positive contribution, through his budgetary policies and proposals, to its renewed growth. But he seems to be suffering from the familiar complaint of the flesh being weak even if the spirit may be willing. He has pleaded in the closing paragraph of his budget speech that "the all-pervasive objective of growth with social and political stability and increasing self-reliance cannot be achieved by budgetary policy alone". By solemnly stating this rather self-evident truth he has merely tried to hide even from himself his own evident dissatisfaction with his inability to push budgetary policy as far as it could be made to go in contributing to the nation's progress in terms of economic growth accompanied by social and political stability and increasing self-reliance.

In a way this is a difficult budget to criticize fiercely. This is because it has the negative virtue of having refrained from doing anything new which may inflict positive injury on the economy. Even this very modest claim could not have been made for some of the central budgets of past years, including at least one budget of which Mr Desai himself was the author. It is true that Mr Desai has proposed new taxation on a substantial scale. It is true, again, that he is continuing to rely on deficit financing of a considerable order. Normally these should have been signals enough for vehement protest. On this occasion, however, his tax proposals, individually considered, cannot be condemned as outrageously objectionable. The main ground for criticising them could only be the general assumption, particularly favoured by the Swatantra Party, that the government is so notoriously wasteful of public funds that any attempt on its part to raise more revenue is open to objection in principle. As for deficit financing, while the nation's enforced familiarity with it has bred among the people a certain feeling of indifference, a trend of rising agricultural production, accompanied as it has been by a tendency on the part of the price level to decline, has robbed the purely theoretical arguments against it of much of their intellectual content and most of their emotional intensity.

All this, however, is but small comfort; for, close to the surface of this budget's superficial innocence and innocuousness are raging untamed the corrosive evils of chronic fiscal indiscipline in government. The process whereby annual bouts of new taxation or other means of raising

government revenue, including deficit financing, have ceased to bear any logical relationship to corresponding annual levels of development outlay had started many years ago and the divorce between the government's draft on the community's resources through the annual budgets and genuine government investment in development is now virtually complete.

Without going into the merits *per se* of the level of defence expenditure which the government considers necessary, we may emphasise the objective fact that defence spending has now assumed dimensions which is making it impossible for any substantial part of additional government receipts to be appropriated for development. While we do not feel qualified to deliver an *obiter dictum* that defence expenditure should be held at or below the Rs 1,000-crore level, we consider it quite reasonable to underline the obvious reality that increases in defence expenditure beyond this level are bound to come in the way—and are, in fact, coming in the way—of any effective mobilisation of additional resources for development.

Crippled outlay

In the same manner, the inability of the government to contain its administrative expenditure within any given limit, the failure of most of the government investments in commercial or industrial undertakings in the public sector to earn a return on capital and the established habit of state governments to draw heavily on central finances in one way or the other have curtailed and crippled the capacity of the central government to step up development outlays even in spite of its having recourse to additional taxation, increased borrowing or deficit financing year after year.

This situation is so obvious that Mr Desai's assertion that the approach he had adopted in the budget is "one of making such changes in the tax structure as are necessary and feasible to build up the ability of the government—and, even more important, of the economy in general—to sustain progressively larger development outlays" can only provoke derisive laughter. If one point could be made against this budget more definitely than any other it is that this budget cannot and does not strengthen, either in the short period or in the long run, the ability of the government to sustain progressively larger development outlays. Surely Mr Desai ought to be able to hear the pips squeak.

Take, for instance, the recent history of and outlook for revenue from customs. Thanks to the devaluation of the rupee in June, 1966, government receipts from customs became a major source of support for the central budget in the subsequent period. They reached their peak in 1966-67 when the combined revenue from duties on exports and imports rose to Rs 585 crores. This boom in customs has been rather short-lived and it is interesting to note that customs receipts sharply declined to Rs 513 crores in 1967-68 and have fallen further and equally markedly in the current financial year for which the revised estimate for customs is as low as Rs 445 crores.

In his budget speech, the Finance Minister noted that, in the revised estimates for 1968-69, customs revenue had shown a shortfall of Rs 94 crores as compared to the estimates presented last February. Referring to the budget year 1969-70, Mr Desai said that he anticipated a further drop in customs receipts from Rs 445 crores this year to Rs 426 crores in 1969-70 at existing levels of taxation. It is worth noting that this downtrend in customs revenue cannot be attributed only to the fickleness of the post-devaluation gains in the revenue from export duties. While it is a fact that this revenue shot up from a nominal sum of about Rs 2 crores in 1965-66 to Rs 123 crores in 1966-67 and further improved slightly to Rs 124 crores in 1967-68 before dipping to Rs 97 crores in the revised estimates for 1968-69, it still constitutes a major head of receipts and Mr Desai's estimate of the revenue at fractionally more than Rs 97 crores for the budget year 1969-70 at existing levels of taxation remains a far cry from 1965-66 or 1964-65 when export duties fetched only about Rs 2 crores per annum. It may perhaps be pointed out at this stage that, even after the reliefs in respect of export duties conceded by Mr Desai in the present budget to some of the hard-pressed export industries have been taken into account, the revenue from this source is expected to amount to the still respectable figure of about Rs 74 crores. It follows that a slump in the revenue from import duties has also been responsible to a considerable extent for the depression in receipts from customs.

Reduced Realisations

Import duties have increased in importance as a major source of revenue over the years. From Rs 108 crores in 1950-51 they had improved to over Rs 400 crores by 1964-65 and in the following year, which was the year when the rupee was devalued, the revenue from import duties took a great leap forward to nearly Rs 548 crores. A good part of this advance was, however, lost in 1966-67 when the revenue fell to Rs 479 crores. An even heavier instalment of decline followed in 1967-68 when this revenue ebbed to Rs 283 crores.

In the budget estimates for the current financial year presented in February, 1968, Mr Desai hopefully looked forward to a revenue of Rs 434 crores from import duties, but corresponding revised estimates now show that the realisation will be very substantially lower at about Rs 342 crores. At existing levels of taxation, Mr Desai has estimated the revenue from import duties for the budget year 1969-70 at Rs 324 crores but he has proposed some additional levies in the field and this should increase the receipts from duties by about Rs 32 crores. Even after this additional taxation of imports proposed in the present budget, the revenue from import duties will be of the order of Rs 356 crores which would be markedly less than the revenue derived

from this source in any of the three years from 1964-65 to 1967-68.

The expansion of revenue from import duties over some past years have been due partly to a series of increases in import duties and partly to the liberalisation of maintenance imports following the devaluation of the rupee. This expansionist trend however was checked from 1967-68 onwards by the recession in the economy which restricted the demand for imports. An allied factor has been the progress of import substitution, resulting in the increased indigenous production of machinery, components, semi-manufactures and certain industrial raw materials catering successfully to a market which would otherwise have been serviced by imports. The Finance Minister mentioned in his budget speech yet another factor which is adversely affecting the revenue from import duties. This is the change in the composition of imports as a consequence of the increased production within the country of items, such as petroleum products, which bear import duties at higher rates. In other words, there is a shift in imports away from items bearing higher import duties.

Inadequate Concessions

The budget estimates for 1969-70 place customs revenue at Rs 435 crores after allowing for the effect of budget proposals. This is about Rs 10 crores less than the corresponding figure in the revised estimates for 1968-69. It is possible, however, that even this lower revenue anticipated for 1969-70 may not be realised. For one thing, the concessions in export duties announced by the Finance Minister are far from adequate in terms of the international competition affecting the export industries or trades concerned. Especially in the case of the jute industry, there is a grave risk that Mr Desai may have underestimated the problems of survival faced by this industry. In these circumstances, there can be no certainty that the government will be able to sustain these export duties at their current levels in the months to come. Even if it decides to stick to these duties, this may well turn out to be at the expense of export sales and consequently, the revenue from export duties. Even otherwise, for any period longer than the budget year immediately ahead, it would be unwise to look upon the present level of receipts from export duties as a reliable revenue factor. Whether the revenue from export duties will or ought to return immediately to its meagre form of the years before 1966-67 or not may perhaps be argued about, but it is certainly not going to be possible for the government to continue to treat export duties as a major source of revenue for any length of time.

The outlook for import duties, from the government's revenue point of view, is perhaps less unfavourable. But even here, given the high level to which these duties have been raised over the years, there does not seem to be much scope left for the government seeking increased revenue through still higher duties. It is possible, of course, that, in a critical budgetary situation, a flat levy could be imposed anew on imports in addition to the existing fiscal burdens on them, but in more normal circumstances it will not be easy for the Finance Minister to fabricate further taxation of imports. In addition to this, there is the possibility that continuing or perhaps growing difficulties in the procurement of foreign aid may restrain the capacity of the country to import goods from abroad. There is, moreover, the continuing progress of import substitution. To the extent that our exports increase, however, our willingness and ability to import more will no doubt improve. But on balance the likelihood seems to be that the volume of imports will not go up substantially in the foreseeable future. It may perhaps be concluded, then, that Mr Desai seems to have very nearly exhausted the revenue possibilities of customs for some years to come.

We may now move on to a similar scrutiny of the prospects with regard to the union excise duties. The yield from this source (including the states' share), which was only Rs 67 crores in 1950-51, has been improving spectacularly from year to year. In 1955-56 the government derived a revenue of about Rs 145 crores from this source and the yield in 1960-61 was as much as about Rs 416 crores. This revenue continued to grow by leaps and bounds and by 1966-67 it had crossed the Rs 1,000-crore mark and was as high as Rs 1,034

Eastern Economist 25 Years Ago

MARCH 10, 1944

In recent weeks, India has become truly planning-conscious. Although as early as March 1941 the government had declared that it was already investigating the problem of planning ahead for the post-war period, it can not be denied that for longer than it should have, it regarded the problem of reconstruction with a measure of passivity as if it was only a remote and comparatively unimportant contingency. It was indeed very recently that it woke up to the possibility, even probability, that if government planning proceeded any longer in this leisurely, bullock-cart fashion, the cessation of hostilities would again find it as sordidly unprepared for its post-war task of reconstruction as the outbreak of the war found it unprepared for the task of mobilization of maximum war-effort. Government planning work, whatever it was, was still proceeding behind closed doors and the public had hardly an inkling of what was going on. The general impression which gained ground was that the government planning still lacked the quality of the "grand vision" and did not add up to more than the sum of a few lop-sided and unco-ordinated schemes. The definite turn in this monotonous tide of drift and passivity came with the submitting to the government of the memorandum which has come to be known as the Bombay Plan. This was the first practical essay in thinking in a big way and yet in concrete and comprehensive terms. The publication of this Plan caught the imagination of the country at a time when it lay helpless in the fatalistic grip of an unparalleled economic disaster.

crores in that year. The receipts rose further in the following year to Rs 1,148 crores and the revised estimate for 1968-69 anticipates a revenue of Rs 1,320 crores from this source. In the budget for the new fiscal year Mr Desai has estimated the yield from union excise duties at nearly Rs 1,422 crores at existing levels of taxation and the effect of his budget proposals will be to raise additional revenue of Rs 104 crores from this source.

The expansion of receipts from central excise is a product of many forces. There is, to start with, the fact of industrial growth. As domestic production has expanded following the industrialisation of the country and the growth of population, the revenue from central excise duties has been forging ahead. This movement has been reinforced by the steady diversification of industry which has enabled the government to add more and more products of industry to the list of excisable articles. Finally, the government has been following a systematic policy of taxing excisable commodities on the principle of what the traffic can bear. The ideological preference for the heavier taxation of goods entering into the consumption of the more affluent sections of society has also been allowed full play. Occasionally, there has been a theoretical departure from this system in the sense that the government has pleaded in some cases that the increases in excise duties have been for the purpose of discouraging consumption either as an anti-inflationary measure or for the purpose of creating exportable surpluses of goods. In essence, however, the government's basic policy in this area has been motivated by revenue considerations.

Extended Coverage

In the coming years, the government will no doubt be able to extend the coverage of this tax gradually by bringing more and more commodities under its net. In the present budget itself Mr Morarji Desai has taken a big and bold step forward in this direction by proposing to tax farm inputs, such as fertilizers and power-driven pumps. In view of the fact that fertilizers have hitherto been heavily subsidized to encourage their use by progressive agriculturists, the revolution in fiscal thinking, which the proposed new excise duty on fertilizers represents, is considerable and courageous indeed. An excise duty on fertilizers, the domestic production of which is programmed to expand rapidly, will no doubt develop into a major source of revenue for the government. The proceeds of the countervailing import duty on fertilizers procured from abroad may decline as domestic production increases, but the net receipts from the taxation of fertilizers will no doubt become an expanding major source of revenue.

There are, however, not many more possible additions to the list of excisable commodities which may have a comparable revenue significance. The Finance Minister's best bet in this direction would be to put his money on the natural growth in revenue as production and consumption increase. The scope for raising existing excise duties is naturally becoming less and less. In fact Mr Desai has had to allow reliefs to the cotton textile industry in the present budget. He has sharply increased the levies on tobacco and petroleum products and sugar, but he has been forced to concede that the taxable limits have probably been approached with regard to some of the excisable commodities which are now bearing heavy rates of duty. In fact, he has even indicated in the case of tobacco and petroleum products that the increases in duties he has announced in the present budget are intended to spare them from their "annual agony" in the future.

Steady Expansion

The general outlook for the revenue from union excise duties, therefore, may be summed up as one of steady expansion mostly through the influence of natural growth. It follows that the rate at which the proceeds of central excise duties may increase would depend primarily on the rate of growth of the economy in general and its industrial sector in particular. To the extent that agricultural production continues to move upward, adding to the purchasing power of rural communities and prompting the agricultural classes to raise their standards of consumption as well as diversify their consumption patterns, union excise duties should steadily grow in their fiscal importance. At the same time, much would depend on the rate of growth in industry as well and, at this point, the effectiveness (or otherwise) of the government's strategy for promoting industrial development through the present budget as well as by other means clearly becomes relevant.

The probable rate of growth of the economy, particularly in its industrial sector, will be equally relevant to the outlook for receipts from direct taxation. It is worth noting that the proceeds from income-tax have not been a particularly fruitful source of revenue for the central government. The increase was from Rs 133 crores in 1950-51 to Rs 167 crores in 1960-61. From 1962-63 onwards progress has been better and the receipts from this source in 1967-68 were nearly Rs 326 crores. The revised estimate for the current financial year places the proceeds of income-tax at Rs 338 crores and in the budget estimate for 1969-70, the revenue at existing levels of taxation is put at Rs 345 crores. To this Mr Desai's budget proposals will have the effect of adding a little more than Rs 17 crores. If account is taken of the fact that the rates of income-tax have been raised frequently, especially on the higher slabs, the relative inelasticity of this source of revenue, despite a period of planned economic development, becomes noticeable. There is reason to doubt that much more could be obtained under this head of taxation in the next few years through any further increases in rates.

It is significant that although Mr Desai has proposed new taxation of a considerable order for the next fiscal year, he has not found it possible to attempt to add more than marginally to the burden borne by

income-tax assessees as a class. On the contrary, Mr Desai has been forced to concede that some reliefs are necessary for this category of taxpayers if only in order to step up voluntary savings and stimulate investor interest in equities. It is fairly obvious that, over the next four or five years, not much revenue could be expected from income-tax except through such natural growth as there may be in terms of an increase in the number of assessees over various slabs. On the basis of the trends so far seen in the revenue from income-tax, it seems reasonable to assume that there could only be a very modest improvement in the support which the central budget may expect from this source in the foreseeable future.

Revenue prospects in respect of the corporation tax are not very much more promising. The yield of this tax had indeed expanded rapidly since 1960-61 when it was about Rs 111 crores. The receipts were as high as Rs 329 crores in 1966-67, but there has been a decline in 1967-68. As against the budget estimate of Rs 350 crores for that year, the revised estimate was slightly less than Rs 320 crores and this figure subsequently came down to Rs 310 crores in the "Accounts" for 1967-68. The Finance Minister, in the budget estimates for 1968-69, anticipated a revenue of Rs 320 crores from corporation tax and the corresponding revised estimate shows a slight improvement at Rs 322 crores. For the fiscal year 1969-70, Mr Desai has estimated the receipts from this tax at Rs 330 crores at existing levels of taxation and his budget proposals will have the effect of reducing this estimate by about four crores of rupees.

Stabilised Yield

It seems to us that, pending a leap forward in the industrial sector, the yield from corporation tax is tending to stabilise at existing levels. So far as the rates are concerned, there is little scope for any enhancement. On the contrary, there is every justification for a lowering of rates. It follows that the government may expect an improvement under this head of taxation only through an expansion of industrial activity and a growth in industrial profits. The sooner this forward movement in industry is secured the quicker will be the restoration of dynamism to this important source of revenue for the government. There are, no doubt, some more heads of tax revenue for the centre, such as the estate duty, the wealth tax and the gift tax. Apart from the fact that the proceeds of estate duty go to the state governments, these taxes have not been of much revenue significance and it is difficult to imagine any substantial change in this situation in the near future.

In theory the industrial and commercial undertakings of the public sector, in which vast amounts have been invested, should be able to contribute to the central revenues by earning a reasonable return on capital. In practice no such support or sustenance has been forthcoming or is likely to come forth in the foreseeable future. So far as the Railways are concerned, they continue to be dependent on general revenues for their capital needs and occasionally even for their ways and means. The Posts and Telegraphs Department is perhaps in a worse position. For the second year in succession, the rates have had to be raised sharply merely in order to enable this department to cover its costs. The picture is even more depressing where the rest of the public sector is concerned. A memorandum presented to Parliament by the Ministry of Finance along with the budget papers notes that the present investment in central government commercial and industrial enterprises—over 80 in number—is of the order of Rs 3,500 crores. Out of this, investment in the 55 running concerns (including Hindustan Steel Limited) accounts for nearly Rs 3,200 crores. During 1967-68, 31 of these enterprises showed a net profit of over Rs 48 crores. The other 24 enterprises, however, showed a net loss of Rs 83 crores. There was, therefore, an overall net loss of Rs 35 crores. Mr Desai, in his budget speech, admitted candidly that he did not expect any immediate improvement in this state of affairs, which would mean of course that, instead of contributing to government revenues, the public sector is, and may continue to be, a drag on them.

Broadly speaking, then, over much of the area of central government revenue, the prevailing trend is one of stagnation. The only exceptions perhaps are the union excise duties. Here, it is possible to anticipate some modest expansion in yield. Taking all the relevant factors into consideration, we would suggest that an annual increase of about Rs 250 crores is all that may be expected in the tax receipts of the central government over the next few years after allowing for such new tax measures as may be possible. It is apparent that this rate of increase is too meagre to support the

VOLUNTARY DISCLOSURE

likely increases in government expenditure even outside the field of development outlays. Defence expenditure has increased by about Rs 58 crores as from the revised estimate for 1968-69 to the budget estimate for 1969-70. It seems to us necessary to allow for an annual increase of at least Rs 75 crores on an average under this head in the coming years. The budget for 1969-70 provides for about Rs 998 crores under the head "Other Expenditure", which includes expenditure on the Administrative Services. It would be prudent to allow for an annual increase of at least Rs 50 crores on an average under this head in the coming years. The government's liability in respect of interest payments is steadily growing from year to year. The budget for 1969-70 provides a sum of Rs 569 crores for this purpose. As against the corresponding provision of Rs 501 crores in 1967-68 or Rs 214 crores in 1961-62, an annual increase of about Rs 30 crores on an average for the next few years may not be a too liberal estimate for the provision which may have to be made for interest payments. Another major item of increase in expenditure from year to year is occasioned by the transfer of completed Plan schemes to the non-Plan side. Added to all this is the continuing demand from state governments for an increase in their share of taxes levied or collected by the central government. It is obvious, indeed, that even if the tax receipts of the central government do, in fact, increase by about Rs 250 crores from year to year partly as a result of natural growth and partly as a consequence of new taxation, they will be barely enough to meet annual increases in government expenditures unconnected with outlays on development. In other words, even after the central government has squeezed the tax potential until the pips squeak, it may still be left with an unsolved problem of resources for development.

A Prisoner in His Own House

THE FINANCE Minister thus is a prisoner in his own house. So far as additional tax revenue is concerned, it is unlikely to be of much help to him in building up resources for development unless, of course, the general level of economic activity and more particularly the level of activity in the industrial sector starts rising soon. Mr Desai's claim in his budget speech that he has tried to take into account the requirements of long-term growth can, therefore, have meaning only in terms of the contribution his budget strategy and his budget proposals may be able to make towards stimulating the economy.

To take the strategy first, the Finance Minister explained that he had not adopted the simple approach of deciding first on a certain desired level of Plan outlay and proceeding then to raise resources on the required scale. This certainly was a right decision for, as Mr Desai himself pointed out, there were limits beyond which resources could not be raised in the short run without impairing the functioning of the economy. This in our view is sufficient justification for the central government's Plan outlay being limited to Rs 1,903 crores over the new fiscal year, inclusive of an amount of Rs 165 crores to be found out of their own resources by the Railways, the Posts and Telegraphs and other public sector undertakings. It is true that this makes of the first year of the fourth five-year Plan, programmed to start on April 1, an unexciting continuation of the annual plans which have been punctuating the interregnum since the conclusion of the third five-year Plan on March 31, 1966. The circumspection displayed here by the government is fully warranted both by the general circumstances of the economy and by the particular condition of the resources position of the government. The strains occasioned by the devaluation of the rupee in June, 1966, the two successive years of low agricultural production and the recession in industry have certainly not added to the capacity of the nation to undertake increased investment of government funds in development projects, particularly since other calls on government finances, such as defence or administrative expenditures and interest charges, have been making larger demands.

Constraints on the Government

The constraints on the government's capacity to finance a higher rate of development outlay are clearly shown through the facts and figures of the present budget. The additional taxation proposed by Mr Desai is expected to bring in over Rs 173 crores, of which about Rs 115 crores would be through the imposition of new excise levies or the enhancement of existing ones, Rs 32 crores from the upward revision in customs and countervailing duties, about Rs 21 crores through direct taxes and nearly Rs 5 crores by way of increases in telephone and telegraph tariffs. These receipts, however, will be brought down by slightly over Rs 41 crores as a result of the reliefs to the extent of about Rs 10 crores proposed in excise levies, about Rs 30 crores in customs duties and Rs 8 crores in direct taxes. The receipts from the enhancement in the telephone and telegraph tariffs will go to wipe off the deficit of the Department of Posts and Telegraphs. Deducting the share of the state governments in the additional yield from the divisible union taxes, which comes to Rs 27 crores, the net addition to the exchequer of the Government of India will therefore be about Rs 100 crores. In spite of this additional taxation, Mr Desai has still not been able to avoid an overall budgetary deficit of Rs 250 crores which is to be covered by the expansion of treasury bills.

The quantum of deficit financing thus proposed for 1969-70 is about the same as is being undertaken in the current financial year. Although, thanks to a substantial increase in food production in the years 1967-68 and 1968-69 and a recovery of output in a number of industries, there may not be any adverse repercussions

on the price level, it is clear that the government can rely on deficit financing only within limits if it decides to avoid running the risk of a revival of inflationary pressures. In other words, since a higher level of development outlay which has been proposed in the central budget can be attempted only if taxation or deficit financing or a combination of both, is to be resorted to to a greater extent than the already high levels projected in the budget, the central government clearly cannot afford to be more generous in providing for development than it has done in this budget.

As has been indicated just now, the order of the proposed deficit financing does not, in our view, run the risk of stimulating inflation. Apart from the fact that there is now a greater flow of goods and services in the economy, the demand for liquidity has also increased. There is much unused capacity over a wide range of industry and the improvement in the purchasing power of the farming community offers good prospects of a growing market for higher levels of industrial production. The progress achieved on the export front encourages the belief that more and more of our industries should be able to find markets abroad for more and more of their outputs. The improvement in the balance of payments, due partly to the progress of exports and partly to the slackened off-take of imports in the recent recession-years, now makes it possible for industry to procure maintenance imports more freely. In this sense the budget strategy of providing for a measure of deficit financing may be accepted as being helpful to the progress of the current revivalist and expansionary tendencies in our economy.

Half-Hearted Proposals

As for the specific tax proposals of the present budget, the outlook is very much less clear. There are. no doubt, a few positive proposals, but all of them seem to suffer from the weaknesses of inadequacy and half-heartedness. Mr Desai has attempted to offer some encouragement to those enjoying middle or upper-middle levels of income to improve their voluntary savings or increase their investment in equity shares. He has liberalised the terms on which tax relief is allowed on account of life insurance. It is proposed now that premia on insurance policies taken by an assessee on his children should also qualify for tax relief. This is no doubt a welcome concession to assessees particularly of the higher age groups, but since the overall limits for savings through life insurance and other specified media qualifying for relief have been maintained at their present levels, the fiscal encouragement to savings does not seem to amount to a great deal. We suggest that the Finance Minister should be much more imaginative and bold in extending preferential treatment to savings through approved media and that, in the case of income-tax assessees, whose principal incomes are in the form of salaries to the extent of 90 per cent of their total incomes, no ceiling at all should be placed on the amounts of approved savings qualifying for relief.

The Finance Minister has raised the tax exemption limit in respect of dividends from Rs 500 to Rs 1,000, thereby extending the same benefit to investments in equities generally as is hitherto being given only to investments in the units of the Unit Trust of India as preferential treatment. Without seeking to minimize the importance of this concession, we would point out that, so long as small investors, who are not liable to pay income-tax or who are paying income-tax at the lower rates, are put to the necessity of claiming refunds in respect of tax deductions effected from dividends at source, this particular relief loses much of its actual substance.

Increased Burdens

While the concessions given for voluntary personal savings are thus very modest, Mr Desai has decided to add to the burden on assessees with taxable incomes in excess of Rs 10,000 per annum. He has proposed an increase in the rate of tax on personal incomes on the slab of Rs 10,001 to Rs 15,000 by two per cent, from 15 per cent to 17 per cent, and on incomes in the slab of Rs 15,001 to Rs 20,000 by three per cent, from 20 per cent to 23 per cent. The full effect of these increases will fall on taxpayers having incomes of Rs 20,000 or more and, taken together with the surcharge of 10 per cent of the basic income-tax, the additional tax will amount in each such case to Rs 275 per year. These changes are expected to yield in a full year an additional revenue of Rs 13.82 crores. The Finance Minister may be right in claiming that these increases are in the nature of marginal increases. But he has overlooked the fact that any additional draft, however small, on middle level and upper-middle level incomes must obviously run counter to the purpose of the concessions he has given for promoting savings and investments in equities by the smaller investors. There does not seem to be much point in an exercise in which the left hand snatches away what the right hand has just given. On balance, then, Mr Desai has done very little indeed to promote voluntary savings or strengthen the capacity of small investors to invest in equities.

In the matter of corporate taxation, again, the Finance Minister's performance has fallen far short of his obvious good intentions. That Mr Desai is anxious not to do anything to upset the capital market is evident from the fact that, even while imposing substantial new taxation in the aggregate, he has not only refrained from adding to the fiscal burdens of the corporate sector but has extended a notional relief of the value of about Rs 4 crores to this class of citizens. This apart, he has indeed given valuable encouragement to industrial expansion by extending the holiday concession for new industrial undertakings and ships for a further period of five years from April 1, 1971, to March 31, 1976.

He has shown similar good sense in deciding to

continue the development rebate. The rates on which the development rebate will be admissible in respect of machinery and plant installed after March 31, 1970, have already been reduced, under the present law, to 25 per cent of the cost of machinery and plant in the case of a "priority industry" and 15 per cent in the case of other industries. This contrasts with the corresponding rates of 35 per cent and 20 per cent applicable to new machinery and plant installed up to the end of March, 1970. The rate of development rebate on new ships is and will continue to be 40 per cent. The tax holiday and the development rebate have proved to be exceedingly valuable concessions, but for which the present structure of corporate taxation would have proved an intolerable burden on industrial expansion. Mr Desai is to be congratulated on the wisdom displayed by him in reassuring the corporate sector of the continuance of these essential fiscal reliefs.

Two more favours have also been shown to the corporate sector. The income derived by Indian companies from the transfer or servicing of know-how is to be taxed on a concessional basis. This is expected to encourage the development of local know-how and discourage what is described as "repetitive import of technology". Secondly, an amount of up to 2.5 per cent of the project cost, spent as promotional expenses or expenses on project reports, market surveys, etc., will be allowed to be amortised over a 10-year period. This concession is intended to ease the financial burden of launching new enterprises or investigating new project possibilities.

Small Mercies

These reliefs may be merely more than small mercies. Nevertheless, what Mr Morarji Desai has done in a positive sense to encourage the corporate sector is relatively less important than what he could have done but has not. It is indeed highly deplorable that despite the mass of material available to him for formulating a programme of enlightened corporate taxation, Mr Desai has decided to leave severely alone the problem of disincentives in the existing structure of corporate taxation. The Finance Minister has done nothing whatsoever to moderate the fiscal inroads into company finances which are making it impossible for reasonable provision being made for corporate reserves or distribution of fair dividends to holders of equity shares. The surtax on company profits, which has been recognised by Mr Desai himself to be a deterrent to corporate efficiency, continues. Worse still, the very reasonable demand for at least reduction of five per cent in the basic corporate tax as the first step towards an expansion-oriented corporate tax structure has failed to win Mr Desai's acceptance.

In the circumstances, it is not surprising that the stock exchanges and the capital market have not exactly been brimming with enthusiasm for the present central budget. It is only the relative improvement in the general economic situation and a faith in the prospects for the continuing expansion of agricultural production and the possibilities of further progress of industrial recovery that are helping to sustain the pre-budget improvement in stock exchange sentiment. There can be little doubt that Mr Desai has lost an opportunity for injecting new hope and new vigour into the industrial economy of the nation by effecting a timely transformation in the government's fiscal attitudes towards corporate earnings.

Elsewhere too, the Finance Minister has missed his cue. Even after accepting the importance of assisting the jute and cotton textile industries to counter the growing threats to their solvency, Mr Desai has not been able to meet the bare needs of the situation. For the cure of a disease the dosage is as important as the medicine itself and the grudging reliefs which the Finance Minister has extended to these industries are an obvious case of gross under-dosage. Thus, although the cotton textile and jute industries are to be treated as priority industries for the purpose of the development rebate, they have been denied this status where concessional rates of corporate taxation are concerned.

Inexplicable Attitude

Again, although it has now become firmly established that the export duties on jute manufactures are eating into the vitals of this industry and are steadily undermining its competitive position *vis-a-vis* the jute goods industry in Pakistan as well as synthetic substitutes which are forging ahead in world markets, Mr Desai has not had the courage to abolish these duties and has merely pronounced cuts in them. His attitude is indeed inexplicable since experience has shown that the duties, whatever their rates, are an extremely damaging levy on the competitiveness of this major export industry of the nation. There is, indeed, a view in the jute industry that its exports should be subsidized rather than taxed. This underlines the harmful gap that exists between the thinking of the academics in the government and the practical businessmen and professionals in the jute industry and trade. Mr Desai, it may be added, has also proposed an increase in the basic excise duty on jute manufactures. Thus, the net result of all these budget proposals relating to the jute industry is that the sum of the reliefs accruing to it are bound to be much less than what is needed to sustain its competitiveness in international trade.

Mr Desai has dealt with the cotton textile industry in the same grudging manner. Apart from the fact that the priority status given to it stops short of making it eligible for concessional rates of corporate taxation, the textile industry has suffered grossly from the Finance Minister's niggardliness in dispensing reliefs in excise duty to this beleagured industry in which mill after mill is giving way before accumulating financial stresses. In the name of finding funds for the relief he is providing for the weaker cotton mills by abolishing the duty on grey fabric and reducing the processing surcharge on medium and coarse categories of fabrics, Mr Desai has thought it proper to increase

the excise duty on superfine and fine fabrics and selectively levying an *ad valorem* duty of 15 per cent on the costlier varieties of fabrics, such as suitings, tapestry and furnishing fabrics, Turkish towels and others, which at present bear what the Finance Minister regards as a low incidence of duty in relation to their prices. In other words, the Finance Minister has proposed a tax on the productivity of the more efficient mills so that he may skim off such higher profit margins as they may be enjoying as a result of their past investments in modernisation or improvement of technology.

It is a pity that Mr Desai has chosen to ignore the fact that it is this kind of fiscal or other animus shown by the government in the past towards the modernisation of cotton textile industry and improvement of its technology in consonance with world standards which has brought that industry to its present sorry pass and burdened it with the problems of the so-called sick mills. As in the case of the jute goods industry, so in the case of the cotton textile industry, the Finance Minister has failed to act in a reasonable way in assisting them to replenish their resources for raising their efficiency and productivity and improving their competitiveness in markets at home or abroad. We are afraid that, instead of going as far as he could have done towards removing the difficulties of these hard-pressed industries, Mr Desai has merely tinkered with their problems thereby doing little to take these industries any nearer to a satisfactory solution of those problems.

The Finance Minister's proposals for taxing "rural affluence" resulting from the emerging "green revolution" have promptly provoked controversies some of which have political overtones. Mr Desai has extended the coverage of the union excise duties to include two major farm inputs, viz., fertilizers and power-driven pumps. An excise duty of 10 per cent *ad valorem* is to be levied on fertilizers yielding a revenue of Rs 22 crores and a duty of 20 per cent *ad valorem* is to be levied on power-driven pumps yielding a revenue of Rs 2 crores. There is also to be a countervailing import

duty on fertilizers which is expected to fetch Rs 26 crores.

In making these proposals, Mr Desai may appeal to the broad agreement developing in the nation that the more prosperous sections of the farming community should be made to increase the contribution to public revenues. It is obvious that, without a widening of the tax coverage to include wealth and incomes in the agricultural sector, it will be impossible to broaden the base of the national tax structure and thereby lighten its disproportionately heavy incidence on the business and professional classes or the urban communities. Here considerations of equity as well as economic efficiency apply. If a growing level of government expenditure, including outlay on development, is to be financed mainly through the increased taxation of the non-agricultural classes, there is every risk of incentives for the section of the population thus taxed excessively being irreparably damaged. This will adversely affect growth in the industrial sector immediately and in the economy as a whole ultimately. Moreover, the burden of taxation on the urban middle class will have to be raised to levels beyond the limits of endurance causing economic distress and dangerous social strains. It is obvious that there can in fact be no growth in government revenues beyond a point—and this point will soon be reached if it has not been reached already—unless that part of the national income (which is roughly about 50 per cent of the total) arising in the agricultural sector is also made to contribute its proper share to public revenues.

Political Prejudice

The taxation of agricultural incomes, however, falls mainly within the jurisdiction of state governments. For obvious political considerations, the state governments have not come forward to levy taxes on rural incomes, such as a really effective agricultural income-tax, since this may alienate the numerically important rural electorate. In a context in which political parties in opposition are openly enthusiastic about exploiting the issue of agricultural taxation for promoting their own popularity in the countryside, it is perhaps natural that parties which happen to be in power are extremely reluctant to stick their necks out.

In the circumstances, the Finance Minister's move is essentially in the nature of an attempt on the part of the central government to bell the cat. He has sought to justify his proposals with an abundance of sweet reasonableness. As he puts it, those who benefit by the substantial investments of public funds in agriculture, including research, irrigation facilities, fertilizer plants, rural electrification, credit facilities and support prices, should contribute a part of their prosperity towards the cost of development in general. This is all the more so, says Mr Desai, since the benefit of improved technology cannot yet be shared by the majority of our farmers, particularly in dry regions where fertilizers and new seeds are not easy to apply. *He also points out that the facilities for lift irrigation by power-driven pumps are not spreading uniformly. If the benefits of the new agricultural technology are to be carried progressively to a growing proportion of* our farm population, the resources needed for this purpose, pleads Mr Desai, should come at least in part from the beneficiaries of the process. This is the *rationale*, as he sees it, for the levy of excise duties on fertilizers and power-driven pumps.

A third proposal—and a rather colourful one—made by the Finance Minister for taxing farm prosperity is to provide in the Wealth Tax Act for levy of wealth tax on the value of agricultural land, including buildings situated on or in the immediate vicinity of such land. Agricultural wealth will be added to other wealth for the purposes of the tax at the existing rates with effect from the assessment year 1970-71. Mr Desai expects this measure to yield an additional revenue of Rs 5 crores in a full year and since this tax is to come into effect only from the assessment year 1970-71, there will be no revenue gain in the coming year. He has also stated that it is the intention of the central government to pass on the proceeds of the wealth tax on agricultural property to the states as grants-in-aid.

Half-Hearted Support

The proposal to tax agricultural wealth seems to enjoy less than the full support of Mr Desai's colleagues in the cabinet. In fact, this move met with so much opposition at the meeting of the union cabinet, convened immediately before the presentation of the central budget in Parliament, to hear Mr Desai read out his budget proposals to his colleagues that the Finance Minister, in the course of delivering his budget speech subsequently, had to interpolate a qualifying class in the passage relating to his proposal for taxing agricultural wealth. This qualification was to the effect that it was the intention of the government to provide for the exemption of genuine agriculturists from the purview of the tax on agricultural wealth.

There has been some half-hearted attempt on the part of the critics of Mr Desai's proposals for taxing the agricultural classes to find economic arguments for their opposition. It has been said that, even if these taxes may be justified in theory, Mr Desai has been hasty in coming forward with his proposals at the present time and that he ought to have waited for some more time until the processes of popularising capital-intensive and technologically developed farming among the rural population had advanced further. Mr Desai's proposals, in other words, are condemned as being premature and as being calculated to nip the "green revolution" in the bud. There is, however, no ground for supposing that the excise duty on fertilizers or power-driven pumps will discourage their use. In any case, the critics have neither been able to nor have cared to make out a respectable case on these lines. Unless there is reason to fear that the new excise levies

will check the popularisation of these farm inputs, there is warrant for their being given a fair trial.

As regards the proposal to tax agricultural wealth, the criticism advanced on economic grounds is that it would discourage progressive agricultural entrepreneurs who are spearheading the "green revolution" by acting as its catalysts or pioneers. It is also contended that this proposal will inhibit the flow of urban capital into farming which is in great need of replenishment of its capital resources. This argument overlooks the fact that, since "other" wealth is already subject to a wealth tax, the mere extension of the wealth tax to agricultural wealth cannot in itself be a reason for investments in agriculture not being undertaken provided they are otherwise attractive and profitable. What would really count here is the degree of productivity of capital-intensive, technologically advanced farming. Provided this productivity is sufficiently high so that attractive incomes may be earned as well as substantial capital appreciation expected, agricultural entrepreneurs, whether whole-time or only part-time, should feel sufficiently encouraged to engage in modern farming.

Doubtful Validity

Doubt has been expressed about the constitutional validity of the proposal to bring agricultural wealth within the purview of a central government enactment, such as the Wealth Tax Act. The Finance Minister has explained that he has armed himself with appropriate legal advice. This, in any case, will, in the ultimate analysis, be a matter for the courts to decide. Meanwhile, it is certainly politically necessary for the central government to carry the state governments with it in pursuing this proposal. Mr Desai has paved the way for co-operation from state governments by declaring that the proceeds of the tax on agricultural wealth will be transferred to states as grants-in-aid. While some of the state governments may not be able to resist the temptation to embarrass the centre in a matter of this kind, where such sensitive issues as the precise nature and extent of the centre's fiscal jurisdiction *vis-a-vis* state governments, or the direct taxation of the rural electorate are involved, even they may not be entirely blind to the advantage of letting the centre benefit the revenues of state governments by itself undertaking unpopular tax measures. As regards the excise duties on fertilizers and power-driven pumps, it may be expected that they will in due course be brought within the list of divisible taxes, the proceeds of which are shared between the centre and the states in accordance with the recommendations of Finance Commissions from time to time.

Essentially, however, the opposition to Mr Desai's proposals of direct or indirect taxation of the agricultural sector is political. Even within the Congress party, there is great reluctance to face the risk of the party alienating the sympathies of influential or articulate strata of rural communities. It is the pressure motivated by this fear which Mr Desai is being called upon to cope with from the moment he conveyed his budget proposals to his colleagues in the union cabinet. The process of his yielding has already started, with his undertaking to find ways and means of exempting genuine agriculturists from the proposed tax on agricultural wealth. If this assurance is implemented it would mean that the measure of taxing agricultural wealth would boil down to the process of closing or restricting an opening for tax avoidance or evasion by the richer professional and business classes who may have branched out into farming either in order to earn tax-free supplementary incomes or build up tax-free wealth or in order to equip themselves with means of bringing unaccounted money into the books. While we do not deny that, even in this restricted sense, the agricultural wealth tax may serve a desirable social purpose, we would certainly emphasize the point that its effectiveness as a basic reform of the national tax structure will have been very considerably reduced.

All this could only underline the fact that the process of development financing has reached a stage where the Finance Minister, as the architect of resources mobilisation in the public sector, is bound to find himself increasingly a prisoner of circumstances which are largely of the government's own making. From this prison there is only one way out and this is for the government to encourage and assist the industry and the commerce of the nation to grow rapidly and thereby build up resources in the community for meeting the expanding demands of the development process. In this dynamic strategy the role which the central budget and its fiscal policies may play can only be a subordinate one—subordinate, that is, to the over-riding needs of a larger economic policy designed to promote voluntary savings, capital formation, new industrial initiatives and managerial enterprise. While it cannot be said that, through the present budget, Mr Desai has been able to spell out this freedom for himself or the government, he may perhaps claim that no new bolts have been shut into or bars put on the gates.

IN THE LIGHT OF THE BUDGET

All Clear for Creative Banking

B. K. VORA

IN THE central budget for 1969-70, the Deputy Prime Minister has again chosen to resort to deficit financing by leaving a deficit of Rs 250 crores uncovered as against Rs 260 crores in the revised estimates for 1968-69. Judging from the imperative need for accelerating the pace of economic recovery, deficit financing of this magnitude may be considered a fairly safe dose. The experience gained last year is a significant pointer to the possible economic consequences of another moderate dose of deficit financing this year. The economy has witnessed favourable trends in industrial production, agricultural output and exports during 1968-69 and it is indeed creditable that price stability has been maintained despite deficit financing. The momentum that has gathered needs a further push to ensure sustained recovery.

The monetary policy of the Reserve Bank of India has proved quite efficacious. The credit policy of banks has also been successful in reversing recessionary trends. It is apparent from the current year's budget that both monetary and credit policies will have to play an even more significant role in the future. Deficit financing leads to more money in the hands of various sections of the community and this has an impact on the price level. In order to keep such inflationary tendencies under check and to ensure that the very object of deficit financing is not defeated, banks will have to exert themselves increasingly to achieve the dual objective of mopping up the surplus purchasing power in the community and ensuring a reasonable degree of selectivity in their functions of credit creation and distribution

Aggressive Tapping

In the matter of mobilisation of resources, rural as well as urban sources will have to be tapped in an aggressive manner. Particular emphasis, however, will have to be laid on the monetisation of the rural sector. With a substantial increase in farm production and the consequential shift in income from the urban to the rural areas, banks will have to extend their operations to unbanked and undeveloped centres. The banking habit will have to spread among the rural population. Suitable marketing techniques for selling banking services to those altogether unused to dealing with banks will have to be evolved and put into effect. Banks have hitherto been dealing with metropolitan and town customers, but bearing in mind the illiteracy of the village folk and their traditional conservatism in the matter of parting with their savings, the outlook of the bank staff will have to be reoriented and banking methods and procedures considerably simplified. Besides extending bank services geographically by opening more rural branches, one-man offices, mobile offices or 'mini' offices, depending upon their respective suitability for suburban areas and "satellite" villages in the neighbourhood of larger towns, the services will have to be expanded functionally as well. A survey of a wide range of services suited to the requirements of farmers and workers will have to be made. As a matter of fact, the metropolitan-orientation of banks will have to co-exist with a new rural orientation. A certain degree of refinement has to be bred into the banking system and more innovative market techniques and management principles introduced in its drive for deposits.

Another area where great care and circumspection will be required on the part of banks is credit allocation and disbursement. With the economy turning the corner and passing through a stage of convalescence, banks will have to be extremely judicious in their lending policies. No doubt the National Credit Council is seized of this problem and will exercise a great degree of selectivity in suggesting sectoral credit allocation but the responsibility for actual implementation would still be that of banks.

While inaugurating the seminar on "Credit Facilities to Small-Scale Industries", the Deputy Prime Minister called upon the bankers to make an all out effort to mobilise deposits to the maximum extent so that the credit requirements of the various sectors of the economy could be met more fully. As an incentive to save and to deposit the savings with banks, it would be worthwhile for the government to grant exemption from tax on interest earnings on bank deposits up to Rs 1,000 in the same manner as has been done in the case of dividend income from investment in shares and returns on investment in Unit Trust certificates.

Aid to the Economy

During the current busy season up to February 28, 1969, bank deposits increased by Rs 194.05 crores as against a rise of Rs 134.13 crores in the corresponding period of the previous season. The total bank credit during the same period so far has risen by Rs 222.37 crores as against a rise of Rs 367.70 crores during the previous busy season. Although, at present, there is increasing liquidity in the banking system, which would certainly act as an aid to further economic growth, lending still needs to be selective if it is to further the objectives of social control. While the needs of the preferred sectors, such as agriculture, small-scale industries, export and the retail trade should be given due precedence, some sort of priority will have to be fixed in respect of the needs of other borrowers. No productive sector of the economy should be starved of its credit needs as it is the increase in production that will neutralise the effect of the additional money supply. The main criterion of lending will have to be the potential the loan contains to curb inflationary tendencies that may be generated in the economy from time to time. Every bank loan will also have to be judged from its possible impact on production, creation of employment opportunities, prevention of speculative tendencies and hoarding and profiteering habits. In the ultimate analysis, lending will have to be viewed in the light of the social advancement it will bring about. In other words, lending policies will have to be socially oriented and wherever possible, banks should endeavour to link up rural deposits with rural credits. It would inspire confidence in the rural sector if mobilisation of the rising agricultural income is used for financing further agricultural progress.

The importance of the role of banks in the current year cannot be overemphasised. The budget has been so framed as to enable the government to place greater reliance on the effectiveness of the monetary weapon. Banks implement the monetary and credit policies of the Reserve Bank and should, therefore, act as potent instruments for stimulating the economy. Admittedly, the larger resources that the banks command can be so employed as to set the pace and direction of economic development. This year would be crucial for banks

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and, if correct banking policies are followed, the transitional period can be reduced.

A high degree of creative banking will be needed at all levels of management and one is reminded of the true concept of creative banking described by Mr David Rockefeller, in one of his books, where he says, "I think of creative banking not as an occasional novel idea or inspirational flash, but as a continuing attitude of mind that constantly seeks more imaginative and effective ways of accommodating the financial requirements of our economy, and of putting money to work for economic growth in the city, across the nation, around the world. I think of creative banking as a consciously cultivated disposition to look for the opportunities of progress rather than lament their cost. I think of creative banking as willingness to re-examine all segments of our business in the light of the changing technology of banking; an unwillingness to be fettered by arbitrary rules and routines."

New Horizons for Monetary Policy

SAGITTARIUS

THE BORROWING programme of the central government for 1969-70 should mark the beginning of a new chapter in the policy of cheapening credit adopted by the Reserve Bank of India in the past two years if a further attempt is to be made to raise resources through open market loans on a basis which is again more favourable to the borrower. On the last two occasions there has been a stiffening of the terms of the new loans and the yield on government securities has in fact been reduced by over ¼ per cent with the 5¼ per cent 1995 loan being issued at par last year against the term of 25 years in 1967 for the same loan at par.

In 1966, however, the issue price was at a discount of one per cent. Likewise, the short-term loan carried interest only at 4½ per cent even for a term of seven years, the issue price being fixed at par. In 1967, the short-term loan carried interest at 4¾ per cent with a term of five years and an issue price at par while in 1966 the five-year loan was issued at a discount of 3¼ per cent at the same rate of interest. It will thus be seen that there has been a progressive reduction in the yield basis and considerable benefit was derived out of the lowering of the Bank rate to 5 per cent from 6 per cent on March 2, 1968. It must be mentioned here, however, that the policy of cheapening money had been initiated much earlier and the reduction in the Bank rate was effected only to realign it to be in keeping with lower short-term rates.

Larger Borrowing

The borrowing programme for the next financial year contemplates the raising of a gross amount of Rs 500.25 crores against Rs 396.21 crores raised in the current year, it being assumed that there will be net borrowing of Rs 108 crores against Rs 81 crores in the revised estimates for 1968-69. The larger amount of gross borrowing is due to the fact that the 4 per cent 1969 loan outstanding to the extent of Rs 202 crores is to be redeemed on May 8, 1969, and the 3¾ per cent 1969 loan for Rs 190 crores on July 1, 1969. Three loans were redeemed in 1968-69 aggregating to a total of Rs 236.90 crores. There was also a funding operation for Rs 75 crores recently with a re-issue of 4½ per cent 1975 loan for Rs 25 crores, 3¾ per cent 1974 loan for Rs 25 crores and 4 per cent 1979 loan for Rs 25 crores. There was cancellation of ad hoc securities for a corresponding amount.

As short and medium dated loans have been reissued and latterly the Reserve Bank has been effecting considerable net open market sales, the actual amount mobilised would have been much more than the Rs 81 crores raised by the central government if credit had been taken by it to some extent for the reissues. It was perhaps not thought advisable to adopt this procedure because of deficit financing of Rs 260 crores in the current year and the prospect of a further dose of deficit financing for Rs 250 crores in 1969-70. It should therefore be said that the estimates for 1969-70 are rather conservative especially as the banking system, Life Insurance Corporation, provident funds and trusts should be able to lend support to the new loans on a bigger scale than in recent years. The scheduled commercial banks alone will be able to raise their deposits by nearly Rs 500 crores in 1969 against Rs 431 crores in 1968 while non-scheduled and co-operative credit institutions should be in possession of larger funds due to the increase in the purchasing power of the agricultural income groups. The Life Insurance Corporation, for its part, has been underwriting new business on an impressive scale while there will be the usual additions to the provident funds and trusts. It will be no exaggeration to say, therefore, that the central government alone should be able to raise a net amount of Rs 150 crores in the form of open market loans, the state governments Rs 100 crores and public bodies Rs 25 crores.

The question now is what should be the pattern of borrowing and what steps should be taken to cheapen further the terms of loans so that the conversion operation this year can be made less costly. There will be difficulty, however, for the central banking institution to effect a further reduction in the interest rate on short-term loans without lowering the bank rate as such to 4½ per cent. In fact there were confident expectations from some quarters that the Reserve Bank might announce a reduction in the Bank rate to the level that existed in September 1964.

But there are some practical difficulties in the way as

to credit institutions are proposing to offer fresh inducements to the holders of savings bank accounts and it is thought that lending rates alone cannot be reduced as profit margins have been impaired with rising working expenses. If the Reserve Bank can evolve a scheme for subsidising banks to some extent the expenditure incurred on the opening and running of new branches and special discounting facilities are offered, it may be possible to realign deposit rates in a way which will also admit of a slight lowering of lending rates.

In that event the terms of the loans can be framed to benefit the borrower. As a 30-year loan is not very popular, a new loan at 5¾ per cent with a term of 27 years at a slight discount can be thought of especially as 5¾ per cent 1995 loan is now quoting above par. Likewise a 4 per cent seven-year loan can be issued at a discount of ½ per cent or even one per cent. The gilt-edged market is very firm and with no great pressure on the banking system for expanding credit except for procurement purposes, it may be found advantageous by banks to invest in government loans in excess of statutory requirements if the rediscount rate is reduced to 4 per cent. As the government has to make up its mind in the next three or four weeks the developments in the money market should prove to be interesting. The borrowing programme for 1969-70 has to be completed in two stages as in the current year because the 4 per cent 1969 loan falls due for repayment on May 8. The second stage of borrowing also has to be completed earlier than July 1. with the 3¾ per cent 1969 loan being repayable on this date. As Mr L. K. Jha, the Governor of Reserve Bank, has successfully initiated the new policy and toned up the gilt-edged market it will be interesting to find out how he evolves the new strategy.

A major policy decision, however, has to be taken as the pattern of interest rates for the next few years will have to be determined in the context of the need for incentives for saving and investment and the necessity to provide ample and cheap credit for priority purposes. The cost of borrowing for industrial units is no doubt heavy as the net interest rate works out higher because of the compounding on a quarterly basis. The guarantee charges will also have to be taken into consideration. The banks can reduce the spread between their deposit and lending rates only if, as stated above, the government agrees to provide special facilities for the banking system in consultation with the Reserve Bank for implementing the programme of branch expansion. As more and more branches are being opened in the interior areas and it is felt that the State Bank of India has benefitted by the subsidy scheme, the demand has been put forward that other banks too should be given similar facilities. The year 1969, therefore, promises to be very important for the banking system as well as the borrowing programme of the central and state governments.

Exports: More Needs to be Done

HOMI J. H. TALEYARKHAN

THE ENCOURAGEMENT proposed to be given to exports by the reduction and even exemption from export duties of certain commodities which have been our big foreign exchange earners, such as jute hessian, jute sacking, wool packs and cotton bagging, tea, raw wool, package tea, mica, etc., is welcome evidence of the government's interest in the fortunes of these traditional items in our export trade. Over 70 per cent of our exports still comprise of traditional items of which the above are among the more important. Of late, however, exports of some of these commodities have been showing a decline, though, on the whole, our exports in the current financial year for the period April to November 1968 were over Rs 908 crores, that is to say, nearly Rs 112 crores more than during the corresponding period of 1967.

While exports in cashew kernels, iron ore, castor oil, oil cakes, tea, pulses, manganese ore, groundnuts and raw jute, have shown substantial increases during this period, items such as sugar, iron and steel scrap, raw hides and skins, raw wool, mica, tobacco, have shown a sharp decline, if not in physical quantity exported, certainly in the foreign exchange earned. It may partly be due to the fall in the unit prices realised.

The Finance Minister has proposed timely measures to ensure the restoration of the export appeal of these "dependable" fortifications of the foreign exchange wealth. It is to be hoped that the proposals will have the necessary effect and translate intention into performance. The total relief would come to Rs 23 crores. It may, however, be felt that this is not sufficient.

In fact, it would have been better if export duties had been totally abolished particularly on tea, jute and cotton textiles in order to enable them to face the increasing competition in world markets. To illustrate, Hong Kong has nosed out India as the principal exporter of cotton textiles to the UK and Indian tea is facing increasing competition from the small but highly developed and organised tea industries of Ceylon and countries in East Africa. Indian jute is similarly facing stiff competition from Pakistani interests.

Increasing reliance is being put on exports of non-traditional commodities such as engineering goods and iron and steel. These have made impressive progress after slow beginnings. Exports of engineering goods have increased from a mere Rs 3 crores a decade ago to as high as an estimated figure of Rs 85 crores this year. The exports have nearly doubled in the last one year, thanks partly to the impact of the recession of home demand. In the case of iron and steel, exports have risen from Rs 29 crores to over Rs 85 crores within the last two years. Engineering goods and iron and steel together account for Rs 170 crores of exports for the current year. This means about 7 per cent of our total exports. This however, is still too small a share compared to the contribution of from 40 to 60 per cent which the exports of such goods make to overall export earnings in some countries.

It is, therefore, good to find that the budget has increased the allocation to the Market Development Fund for promoting the export of non-traditional items. The total amount provided for the Market Development Fund next year is Rs 44 crores as against Rs 33 crores in the current year. This amount is quite substantial and it should help the exporter to make up for any loss he suffers on his export transactions. Any loss he incurs by the cost of export being higher than what he realizes, is made up by cost incentives on f.o.b., that is, on export realization.

While it is true that this will be helpful, I wish some concrete steps had been taken for reducing the cost of shipping freight. High shipping costs stand in the way of our successfully facing price competition in world markets. The government should subsidise freight either directly or through assistance from the Market Development Fund. This assistance will have to be provided until such time as a larger percentage than 15 is carried in Indian bottoms. The improvement of port facilities is also of imperative importance and urgency.

This apart, a beginning could have been made in helping the engineering industry to build up an infrastructure, which would have as its paramount objective the reduction in f.o.b., costs. Since steel is the starting point of all industries, a substantial reduction in excise duty on steel would have generated not only the latent internal demand of all industries

primarily dependent on steel but would have provided a tremendous fillip to all industries catering to export markets, where steel accounts for a substantial percentage of the total cost of raw materials. Excise duties similarly could have been reduced in the case of non-ferrous metals such as aluminium, copper, zinc, etc.

Although this does not specially relate to the regular central budget, I would suggest that the Railway Minister could have provided for—and it is not too late even now for him to do so—freight differentials not only on items of export from inland destination to the docks, but also in respect of raw materials, whether imported or local purchases, going to the export centres for fabrication into finished exportable goods. In other words, freight differentials not only on outgoing finished materials for export but also inland freight differential on raw materials intended for the manufacture of finished goods meant for export should have been provided.

Though not directly connected with the budget proposals, I may mention that the value of the incentives would be far more effective if they are made available without involving too cumbersome procedures. It is these procedures which dampen enthusiasm. Talking of procedures, I may mention here that the procedure at present fixed for borrowings by banks themselves from the Reserve Bank for packing credit advances should be simplified. It may perhaps be considered that banks may be allowed to know their entitlements on presentation of a statement as is done in the case of the Export Bills Credit Schemes. So also the method of borrowings from IDBI may be simplified. If the condition is insisted upon that the same procedure for financing term loans to local industries should be applicable to borrowings for export purposes, it will hamper the growth of exports.

The success of the fourth five-year Plan is mainly based on the realisation of export targets and narrowing the gap between imports and exports, thus limiting foreign exchange expenditure to the minimum. A surer way of achieving the export target and even exceeding it is the restoration of the tax concessions on export income as was prevalent prior to devaluation.

Easy and cheap availability of export finance is of course essential. Interest rate for packing and post-shipment credits should be reduced to below 5 per cent as against over 6 per cent at present. In Japan about 95 per cent of export financing is handled by banks at interest charges from 4.7 per cent to 5.5 per cent. The combined burden of interest rate and premium in UK is 5.5 per cent, Japan 5 to 5.5 per cent, France 3.6 per cent and in East European countries only 3 per cent. So also on medium and long-term exports, the rate should be reduced likewise. This can be done if banks could obtain refinance from the Industrial Development Bank of India at 3½ per cent. The Reserve Bank should also consider giving its approval to the extension of the period of packing credit refinance from six months to one year. It is gratifying to know that the Industrial Development Bank of India has now started doing joint financing in cases of exports on deferred payment terms.

For the purpose of simplifying procedures for refinancing, it may be worthwhile considering having an Export-Import Bank of India which will eliminate the present cumbersomeness of various departments of the Reserve Bank and the Industrial Development Bank of India being required for the purposes of refinancing banks for credits given by them for exports. If we have an Export-Import Bank, it will bring all this work under one management and control and, if and when this institution is started, the services of senior officers of commercial banks should be made available to it for some period to work as senior executives.

BUDGET DOCUMENTS

Growth with Stability

PRESENTING THE budget of the Government of India for 1969-70 in Parliament on February 28, the Deputy Prime Minister and Minister of Finance, Mr Morarji Desai, said that the approach he had adopted for mobilising resources for development was one of making such changes in the tax structure as were necessary and feasible to build up the ability of the government—and, even more important, of the economy in general—to sustain progressively larger investment outlays and of limiting the expenditure proposals in the short-run to the total resources that could be so mobilised. Adverting to deficit financing, Mr Desai said, that he had come to the conclusion that a budgetary deficit next year, of roughly the same magnitude as in the current year, was likely to reconcile best the concern for price stability and the maintenance of a climate for growth.

The following is the text of Part 'A' of his budget speech:

I rise to present the first budget of the fourth Plan period. In doing so, I feel somewhat handicapped as the Plan document is not yet available to honourable members. I am, therefore, left to perform the traditional role of a sutradhar who must make a brief appearance on the stage before the start of the play to arouse the interest of the audience. I hope I will not disappoint honourable members at least on the score of brevity.

Economic Revival

The year that is now drawing to a close has been a good one for the Indian economy. The expectation in my last budget speech that, given the right policies, 1968-69 could become a year of revival has been largely fulfilled. For the second year in succession, it should be possible to reap a satisfactory harvest. There are distinct signs of an industrial revival and industrial production should register an increase of almost six per cent. Transport activity and trade have revived; and there have been no serious shortages of power or raw materials. The general price level now is somewhat lower than last year. There has been a remarkable increase in exports. Imports are now being replaced by domestic production over a wide front as a result of the efforts made over successive Plan periods. Despite heavier repayment obligations and somewhat lower utilization of foreign aid th in 1967-68, it should be possible to close the current year without any material variation in our foreign exchange reserves. Against this background of a new dynamism in agriculture, industrial revival, restoration of price stability and progress towards self-reliance, it is possible now to approach the next Plan period with a measure of confidence. All the same, there are a number of factors which limit considerably the area of choice before us in the immediate future.

While food production has increased, we have still a long way to go before we can assure satisfactory levels of consumption for our growing population. Imports of agricultural raw materials and foodgrains are still sizable. Investments in agriculture, including those in research, inputs such as fertilizers and water and provision of credit and storage facilities must, therefore, have a prior claim on our limited resources matched only by the attention to family planning.

The substantial development of capital goods industries that has already taken place makes it necessary as well as feasible to step up investment outlays. But rising levels of investment can be achieved without inflation only on the basis of a growing volume of production of essential consumer goods. This requires not only a steady improvement in agricultural productivity but also greater efficiency and expansion of capacity in consumer goods industries. Attention to these industries is all the more important as they help stimulate the motivation for higher productivity and contribute to growth of public revenues.

In a year that is dedicated to the memory of the Father of the Nation, we cannot but remind ourselves that the ultimate objective of economic development is to serve certain larger social values. We have, therefore, to respond also to the natural urge of our people for basic amenities, such as drinking water, for education and medical aid, for opportunity to work and indeed for a growing measure of equality in general which is the essence of a socialist society.

Export Performance

On the external front, the improvement has been as notable as it is welcome; yet, export earnings amount only to two-thirds of our current import requirements. There cannot, therefore, be any complacency in regard to export promotion or import substitution. The abnormal circumstances of 1965-66 and 1966-67 have led to a decline in the rate of saving in the economy. Despite substantial efforts to mobilize resources and considerable restraint on expenditure, the financial position of the government has weakened over the past few years.

In short, general economic conditions in the country are propitious for resuming the threads of progress over a wide front during the next Plan period. Equally, however, there is need for the right balance between consumption and investment, resources and outlays, economic growth on the one hand and external viability on the other and indeed between larger social values and purely economic considerations. Honourable members will now appreciate why economic planners are often regarded as some of the finest exponents of the art of tight-rope dancing.

Having outlined briefly the current economic situation and the tasks ahead without, I hope, stealing the show from the Planning Commission, I must now turn to the more mundane matters which fall to the lot of finance ministers. In the revised estimates for 1968-69, customs revenue will show a shortfall of Rs 94 crores as compared to the estimates presented last February. Union excise duties and income-tax, on the other hand, are expected to yield Rs 54 crores more. After making allowance for non-tax revenues, total revenue receipts accruing to the centre are likely to show a shortfall of Rs 11 crores only as compared to the anticipated realisation of Rs 2760 crores.

Revenue expenditures are likely to exceed the budget estimates of Rs 2629 crores by Rs 116 crores. Almost half of this increase, however, represents a purely accounting change which is balanced by a corresponding gain on capital account. Another Rs 49 crores is accounted for by additional defence expenditure, on revenue account. This is the result of increases granted during the year in allowances to certain categories of service personnel, the dearness allowance which became due last September, the recent decision to merge a part of the dearness allowance with pay and speedier deliveries of stores against existing orders. On capital account, there has been a reduction in defence expendi-

ture of Rs 13 crores. Honourable members would see that barring the increase under defence and transactions of a purely accounting nature, revenue expenditure has been held within less than one per cent margin of the Budget estimates.

On capital account, the variations have been of a more substantial order. Net external assistance will show a shortfall of Rs 121 crores and PL 480 and other food aid a shortfall of Rs 43 crores. This would be offset to an extent by improvement under market loans, reduction in the provision for transactions in foodgrains and fertilizers and some shortfall in Plan outlays. There are also a number of variations in other items which make on balance for an improvement in the resources position.

In the aggregate, the budgetary deficit this year is now estimated at Rs 260 crores as against Rs 290 crores in the budget estimates. Honourable members, I am sure, would not consider this 10 per cent variation in deficit financing as an index of conservative budgeting on my part.

In the budget estimates for 1969-70, I have assumed that at existing rates of taxation, total revenues accruing to the centre will increase by Rs 151 crores. I anticipate a further decline in customs receipts from Rs 445 crores this year to Rs 426 crores in 1969-70. This reduction is based on the expectation that while there would be some increase in total non-food imports, there would be a shift away from items such as petroleum products which bear duties at a higher rate. Union excise duties are expected to show an increase of Rs 101 crores. Corporate and income taxes should yield Rs 675 crores as against Rs 660 crores this year. Non-tax revenues should also yield Rs 50 crores more.

Increased Revenue Expenditure

The increase in revenue will, however, be more than absorbed by increases in expenditure on revenue account. Defence expenditure on revenue account will be more by Rs 42 crores. Excluding certain accounting adjustments, the non-Plan civil expenditure will be more by Rs 142 crores. Of this Rs 41 crores are accounted for by interest charges. The Fifth Finance Commission's recommendations have necessitated an additional devolution of Rs 36 crores to the states. Committed expenditure arising out of completed Plan schemes has meant an increase of nearly Rs 35 crores. Export promotion measures account for another increase of Rs 10 crores. Various miscellaneous items, including administrative services, tax collection and assistance to neighbouring countries account for the rest of the increase. Detailed explanations have, as usual, been given in the explanatory memorandum.

On capital account, net market borrowings next year are estimated at Rs 106 crores as against Rs 81 crores this year. Small savings are placed at Rs 135 crores, i.e., Rs 10 crores more, but of this nearly two-thirds will accrue to the states. The public provident fund should yield Rs 5 crores next year as against Rs 2 crores this year. On the other hand, as the author of the once famous but now almost forgotton compulsory deposit scheme, I propose to redeem myself by making full provision of Rs 25 crores for the repayment of the deposits made in 1963-64.

Net external aid, excluding PL 480 and other food aid, should show a marginal increase from Rs 459 crores this year to Rs 467 crores in 1969-70. While debt repayments would be larger, we expect an increase in aid disbursements also mainly as a result of resumption of aid by the International Development Association.

In December 1968, we signed an agreement with the United States government under PL 480 for the import of 2.3 million tonnes of foodgrains. In addition, we have continued to receive food assistance of sizable order from Canada as also some assistance under the International Grain Arrangement from Australia and the UK. A substantial part of the food assistance thus negotiated will result in imports only next year. Honourable members would also appreciate that arrangements for the concessional imports of foodgrains and agricultural raw materials will be necessary for some more time. Consequently, the net budgetary support accruing as a result of PL 480 transactions and other food aid, excluding PL 480 grants already accounted for in the revenue estimates, is placed at Rs 224 crores next year as against Rs 226 crores this year.

The improvements under internal borrowing and external assistance, just mentioned, i.e., Rs 13 crores in all, will be more than absorbed by the increase in defence expenditure on capital account, Rs 17 crores, and on border roads, Rs 4 crores.

Improved Performance

As regards other capital transactions, the food and fertilizer transactions together show an improvement of Rs 76 crores. Total stocks of foodgrains with the Food Corporation at the end of March 1969 should be of the order of 3.5 million tonnes. During the coming year, we propose to add another 1.5 million tonnes to these stocks. It is our intention to provide budgetary resources of Rs 25 crores in 1969-70 for this purpose. The balance of the requirements will be provided by way of accommodation to the Food Corporation from commercial banks.

The improvement under foodgrains and fertilizer transactions, however, will be wiped out by the increases in revenue and capital expenditure already mentioned and worsening under various miscellaneous debt-deposit heads. I have also had to provide for some relief to states by way of adjustment in the repayments to the centre and assistance towards the non-Plan gaps of some of the states to enable them to undertake a satisfactory Plan next year. In the net, the resources available, at the existing rates of taxation and on the basis of the likely availability of internal borrowing and external assistance, leave practically no margin for increasing the provision for the Plan to be financed through the centre's budget next year.

The budgetary contribution of public sector undertakings next year is also not likely to show any significant improvement over the current year. The question of better functioning of public sector undertakings has been examined in detail by the Administrative Reforms Commission as well as the Bureau of Public Enterprises. The government has already taken a number of decisions to improve the working of these enterprises and I am separately circulating a memorandum on this subject to honourable members.

Honourable members may well ask whether the margin of resources available for the Plan could not have been increased by economies in non-Plan expenditure. I have given the most careful thought to this question in framing the expenditure estimates for the coming year. But honourable members would appreciate that a certain increase in non-Plan expenditure is inevitable as it arises from contractual obligations or decisions already taken. The transfer of completed Plan schemes to the non-Plan side, interest charges, export promotion, the incidence of dearness allowance, the merger of dearness allowance with pay and the recommendations of the Finance Commission which belong to this category account for the bulk of the increase in civil expenditure. The increase of Rs 59 crores in defence expenditure is explained mainly by normal increases in salaries and pensions, the additional dearness allowance which became due last September, merger of dearness allowance with pay, additional equity investment in the production units under the charge of the Defence Ministry and larger deliveries against contracts already entered into.

I should perhaps also say a word at this stage about the scope for deficit financing next year. This scope cannot be

defined in terms of the needs of the budget. It has to be determined in relation to the needs of the economy in the light of the likely growth in production and the saving habits of the people. Taking everything into account, I have come to the conclusion that a budgetary deficit next year of roughly the same magnitude as this year is likely to reconcile best the concern for price stability and the maintenance of a climate for growth

It is against this background that I come now to my proposals for resource mobilization for the coming year. In framing these proposals, however, I have not adopted the simple approach of deciding first on a certain desired level of Plan outlay and of proceeding then to raise resources on the required scale. There are limits beyond which resources cannot be raised in the short-run without impairing the functioning of the economy. Equally, the annual budget has to take into account not only the needs of the year but the requirements of long-term growth as well. The approach, in other words, has to be one of making such changes in the tax structure as are necessary and feasible to build up the ability of the government—and even more important of the economy in general—to sustain progressively larger developmental outlays and of limiting the expenditure proposals in the short-run to the total resources that can be so mobilised.

Honourable members would now naturally be anxious to see how well I measure up to my own standards. I hope that in pasing judgment, the customary indulgence towards finance ministers will not be denied to me merely because this predicament of being held up before my own mirror is not altogether unfamiliar to me in this honourable House.

Fiscal Policy Oriented to Economic Growth

IN THE budget for 1969-70, Mr Morarji Desai has made an effort to give reliefs "where necessary, particularly in the interest of exports, savings and modernisation of key industries". The process of rationalisation and simplification of tax system has also been carried a step further besides spreading evenly the burden of taxation by bringing within the tax net commodities or incomes which were hitherto not taxed or taxed lightly. On the whole the tax system, the Finance Minister said, has been made more responsive to the needs of economic growth.

The following is the text of Part 'B' of his budget speech:

Broadly speaking, my tax proposals are intended:

a) to provide a measure of relief where necessary, particularly in the interest of exports, savings and modernisation of key industries; b) to remove anomalies; c) to provide a further measure of rationalisation and simplification; d) to plug the loopholes which make for tax avoidance or evasion; e) to spread the burden of taxation more evenly by bringing within the tax net commodities or incomes which are hitherto not taxed or taxed lightly in relation to essentiality of consumption or capacity to pay; and (f) generally, to make the tax system more responsive to the needs of economic growth.

Before honourable members conclude that I am about to serve them a rich fare, I should reassure them that I propose to bring up my appetizers at suitable intervals. I shall also concentrate on the main courses, leaving the sundries to be discovered in the explanatory memorandum.

Customs Duties

To begin with, an export offering to propitiate the gods of international competition. I propose to reduce the export duty on jute hessian from Rs 500 per tonne to Rs 200 per tonne. The duty on the jute sacking is also proposed to be reduced from Rs 250 per tonne to Rs 150 per tonne, while the duty on wool sacks and cotton bagging is being completely exempted. The export duty on tea is being reduced from 20 per cent less 35 paise per kilogram to 15 per cent less 55 paise per kilogram. The duty on degreased raw wool and on package tea in metal containers is being completely exempted while the duty on package tea in other containers is being reduced from 15 per cent to 5 per cent. The export duty on mica is proposed to be reduced from 40 per cent to 20 per cent in respect of loose splittings of smaller size. The total effect of these reductions will be a loss in revenues of Rs 23 crores per year.

Generally, we levy an import duty of 100 per cent ad valorem on all items of luxury. The duty on imported motor cars is 60 per cent. I propose to improve the value of imported motor cars as a status symbol by increasing the duty to 100 per cent. In the case of dry fruits, the present valuation for calculating the duty is unrealistic. I propose to adopt a more realistic basis for valuation which will have the effect of raising the duty realisation. The import duty on lubricating oils is being raised from 15 per cent to 27.5 per cent to bring it in line with the duty on their constant companion, viz., machinery, and to give an edge to their domestic rivals. These changes will bring in a revenue of Rs 6.2 crores.

We levy a countervailing import duty whenever a commodity is subject to excise. We also have power to levy a countervailing duty in lieu of the excise on the raw materials and components used in any excisable item. No such power exists when the commodity itself is not excisable. I propose to take power to remedy this omission, in the interest of import substitution. In certain cases such as bearings, ship stores and imports by post or air for personal use, multiplicity of rates or classification depending on use causes unnecessary delay and annoyance; and I propose to rectify this also.

Excise Duties

Coming to excise duties, it is now generally recognised that ad valorem duties are more rational than specific duties whose incidence declines during periods of rising prices and increases when prices fall. Ad valorem duties can also act as a spur to reduction in costs and prices. I propose, therefore, to convert the existing specific rates into ad valorem rates for cement, vegetable products, electric fans, lighting bulbs and tubes, soaps, soda ash, caustic soda and sodium silicate. Despite the necessity of rounding, I have resisted the temptation of collecting in the process any appreciable crumbs for the exchequer.

But every rule has an exception; and I have been helped by one special circumstance in deciding on the exception to prove this particular rule. In the case of sugar, we have now a price for controlled releases and a free market price. The incidence of the present specific duty when converted into an ad valorem rate, would obviously give two different rates. In choosing between the two rates, I have shown some partiality for the controlled releases on which the present basic and additional duties work out approximately to an ad valorem rate of 23 per cent on an average. I have applied this rate to all crystal sugar. As a result, there will be no change in the average price of controlled sugar with only marginal variations in the different zones. Correspondingly, the duty on khandsari is proposed, at 12.5 per cent ad valorem with suitable revisions in existing compounding rates. I hope honourable members would not object to free market sugar being taxed at the same ad valorem rate as controlled sugar merely because

it has the incidental effect of an additional revenue of Rs 27.45 crores.

I propose to levy an excise duty at the rate of 10 per cent ad valorem on specified domestic electrical appliances and processed food. Honourable members will recall that last year a duty at the rate of one paisa each was imposed on crown corks. I propose now to unite kings and commoners by an extension of the levy to other similar devices for covering bottles and containers. The levies on electrical appliances, processed food and pilfer-proof caps will bring in a revenue of Rs 4.0 crores.

Honourable members would agree that those who benefit by our substantial investments in agriculture, including research, irrigation facilities, fertilizer plants, rural electrification, credit facilities and support prices should contribute a part of their prosperity towards the cost of development in general. This is all the more so when the benefit of improved technology cannot yet be shared by the majority of our farmers, particularly in dry regions where fertilizers and new seeds are not easy to apply. Similarly, the facilities for lift irrigation by power-driven pumps are not spread uniformly. If the benefits of the new agricultural technology are to be carried progressively to a growing proportion of our farming population, the resources needed for this purpose should come at least in part from the beneficiaries of the process. Against this background, I propose to levy an excise duty of 10 per cent ad valorem on fertilizers and 20 per cent ad valorem on power-driven pumps with a revenue yield of Rs 240 crores of which Rs 22 crores would be in respect of fertilizers.

Appetizers Again

It is obviously time now for me to turn to appetizers once again. As honourable members are aware, the cotton textile industry is going through a difficult time. Some relief in the excise duty is, therefore, called for. The excise duty on yarn in the form of hanks of plain straight reels is being abolished in respect of certain counts and lowered in respect of certain other counts. This should benefit the handloom sector. The powerloom sector will benefit by the abolition of the differential duty on sizing even though the duty on unsized yarn of some counts in the fine and superfine category is being increased. Further, duty on grey fabric is proposed to be abolished and the processing surcharges reduced by five paise per square metre on all varieties of Medium A and non-controlled Medium B and coarse categories of fabrics. This relief would very substantially benefit the weaker cotton mills. The total effect of all the relief proposed will be about Rs 15.30 crores.

About Rs 9.5 crores of this loss would, however, be made up by levying a higher duty of five paise per square metre on superfine and fine and 2.5 paise per square metre on all other categories of printed fabrics except the controlled ones and by selectively levying an ad valorem duty of 15 per cent on costlier varieties of fabrics such as suitings, tapestry and furnishing fabrics, turkish towels and others which at present bear a low incidence of duty in relation to their price. In addition, I propose to double the existing compounded levy on powerloom fabrics and to rationalise the duty structure on fents.

The duty on nylon yarn in the lower deniers is being reduced and this would be compensated to some extent by an increase in some of the higher ones. The net effect will be a drop in revenue of Rs 3.9 crores. This concession should help towards eliminating smuggling of nylon yarn about which there has been genuine concern.

The duty on confectionery, but not on chocolates, is being reduced from 80 paise per kilogram to 30 paise per kilogram. The duty on electronic valves, transistors and semi-conductor diodes used as components by radio manufacturers is being halved. Low priced sets manufactured by the large manufacturers in the organised sector will, however, bear a duty of Rs 10 per set. In the case of steel ingots and products manufactured out of scrap by electric furnace owners, I propose exemption to the extent of the ingot duty. The duty on embroidery, which is proving rather heavy, is being reduced. I am assured on good authority that in the topsy-turvy world of the cinema, the higest achievements of subtlety belong to those who are accustomed to think in terms of black and white. Accordingly, I propose to give some relief to the black and white cinematograph films and raise the incidence on colour films. I also propose to levy a nominal duty of two paise per metre on unexposed cinema films. The overall effect of the somewhat mixed bag of concessions on confectionery, component parts of radios, scrap based steel ingots, embroidery and cinema films will be a revenue loss of Rs 3.13 crores.

Old Faithfuls

To return to more familiar ground, I think the time has come when some of the old faithfuls of indirect taxation everywhere such as cigarettes and motor spirit are relieved of their annual agony. One way of achieving this is to raise the duties sufficiently. I must confess that I did not do a neat enough job in this regard in my last two budgets. Accordingly, I propose to increase the duty on motor spirit by seven paise per litre and on cigarettes by six per cent to 18 per cent ad valorem in the different value slabs with a revenue of Rs 29.84 crores. The duty on superior kerosene, which is being increasingly used as an adulterant for motor fuels, is also being raised by four paise per litre with a yield of Rs 14.40 crores.

The basic excise duty on jute manufactures is being raised by Rs 100 per tonne so as to yield a revenue of Rs 4.95 crores. The duty on cellulosic and non-cellulosic staple fibres is being raised by 20 paise per kilogram and Rs 12 per kilogram respectively. The duty on rayon yarn is also being raised by about 10 per cent of the existing rates in all except the industrial deniers and the margin of concession in the rates of duty available to small producers compared to large producers of rayon yarn is being reduced. These proposals on synthetic fibres and yarn will yield an additional revenue of Rs 9.37 crores annually. It is also my intention to transfer the duty on woollen yarn to wool tops; and, to begin with, I am levying a small duty on wool tops with a yield of Rs 6 lakhs.

The cumulative effect of all the proposals relating to excise duties including a few sundries will be an additional revenue of Rs 104.57 crores in a full year of which Rs 79.95 crores will go to the centre and Rs 24.62 crores will be the states' share. As a result of the proposals relating to excise duties, there will be an additional yield of Rs 26 crores on account of countervailing duty most notably on fertilizer imports.

The scheme of self-assessment and removal introduced since June 1968 has worked well and I propose to extend it as soon as possible to most excisable commodities.

Direct Taxation

In regard to corporate taxation, I propose to extend the tax holiday concession for new industrial undertakings and ships for a further period of five years from April 1, 1971, to March 31, 1976. I have also come to the conclusion that the familiar instrument of development rebate need not be abandoned or replaced by fancier alternatives. Accordingly, the development rebate will continue to be admissible, but in respect of machinery and plant installed after March 31, 1970; the reduced rates already provided in the law will apply. The ceiling in the Companies (Profits) Surtax Act on the aggregate corporation tax payable by a widely-held domestic company at 70 per cent of its total income has now become meaningless. But it still continues to mislead people as if the virtually non-operative

HARYANA FORGES AHEAD

Haryana has made all round progress during the first two years of its existence. Facts Speak for themselves:

	Position on Reorganisation	Present Position
AGRICULTURE		
Foodgrains Production (in lakh tonnes)	25.70 (1966-67)	39.52 (1967-68)
Consumption of Fertilizers (in lakh tonnes)	0.60 (1966-67)	2.50 (1968-69)
IRRIGATION		
Area under Irrigation (in lakh hectares)	12.76 (1966-67)	13.01 (1967-68)
Tubewells Installed	435 „	2235 „
Pumping sets Installed	374 „	2174 „
Wells Sunk	613 „	1913 „
INDUSTRIES		
Small Scale Industrial Units	3500	4500
Registered Working Factories	1117	1340
Employment Potential	68,000	76,433
EDUCATION		
Scholars in Schools	9,61,473	11,63,000
Scholars in Colleges	29,000	39,000
Primary Schools	4,465 (1966-67)	5,700
Middle Schools	742 „	1,302
High/Higher Secondary Schools	597 „	654
MEDICAL & HEALTH		
Hospitals and Dispensaries	285	289 (17 converted into Ayurvedic dispensaries)
Beds Available	4,584	5,066 (January—68)
ANIMAL HUSBANDRY		
Veterinary Hospitals	215	225
POWER FACILITIES		
Villages Electrified	1251 (April—67)	1436
Tubewell Connections	20,190 „	27,589 (April—68) 45,589 (1968-69)
Total Connections	3,11,914 „	3,79,428 (October—68)
COMMUNICATIONS		
Fleet of Buses (Number)	475	593
Operation Routes	213	336
Daily Mileage	64,000	80,000

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PUBLIC RELATIONS DEPARTMENT
HARYANA

ceiling is the norm. Accordingly, I propose to do away with this ceiling. Public companies whose shares are listed in a recognised stock exchange in India will now be treated as widely-held companies.

In order to minimise the repetitive import of technology and indeed to encourage the development of local know-how, I propose to tax income derived by Indian companies from the transfer or servicing of such know-how on a concessional basis. To encourage the modernisation of two of our important export industries, viz., cotton and jute textiles, I propose to include them in the list of priority industries for the purpose of the development rebate.

I propose to introduce later this session a comprehensive bill to amend the Income-Tax Act and other related enactments. In that bill, I intend to provide for amortization, over a ten-year period, of promotional expenses and expenses on project reports, market surveys, etc., in the case of Indian companies, which are not at present eligible for any depreciation allowance or other deduction. The amount to be amortized will be limited to 2.5 per cent of the project cost. The classification of different items of machinery, for the purposes of depreciation, is also being considerably simplified, and the general rate for plant and machinery is being raised from seven per cent to 10 per cent.

Marginal Increase

In order to bring about a smoother progression in the tax rates on personal incomes, I propose to make a marginal increase in the rate of tax on incomes in the slab of Rs 10,001 to Rs 15,000 by 2 per cent from 15 per cent to 17 per cent, and on incomes in the slab of Rs 15,001 to Rs 20,000, by 3 per cent from 20 per cent to 23 per cent. The full effect of these increases will fall on tax-payers having incomes of Rs 20,000 or more and, taken together with the surcharge of 10 per cent of the basic income-tax, the additional tax will amount in each such case to Rs 275 per year. These changes are expected to yield, in a full year, an additional revenue of Rs 13.82 crores.

I propose to simplify and rationalise the taxation of co-operative societies. In the case of registered firms, I propose to increase taxation slightly by introducing a new slab of income between Rs 10,001 and Rs 25,000 on which the rate of basic income-tax will be 4 per cent. This change will yield in a full year additional revenue of Rs 4.32 crores.

I have a special word of cheer for authors, artists, playwrights, musicians and actors. In their case, 25 per cent of the professional income derived from a foreign source and received in India in foreign exchange will be deducted from taxable income. In case this creates apprehensions of cultural drain, I would remind honourable members that the best things in life are generally for export.

Honourable members are aware that there has been renewed interest in the equity market on the part of genuine investors. In order to encourage this trend, I propose to raise the exemption from tax enjoyed by dividend incomes from Indian companies from Rs 500 at present to Rs 1,000 per year. This will bring investment in shares in Indian companies in line with investment in units of the Unit Trust. I also propose to extend the area of existing tax relief in respect of life insurance premiums.

Agricultural wealth has so far been exempt from wealth tax. This has encouraged purchase of such land by the richer professional and business classes. While this has often acted as a spur to greater productivity in agriculture, there is no case in equity for taxing other productive wealth but exempting wealth in the form of agricultural land. I am advised by the Attorney General that Parliament is competent to legislate for the levy of wealth tax on agricultural wealth. Accordingly, I propose to provide in the Wealth Tax Act for the levy of wealth tax on the value of agricultural land including buildings situated on or in the immediate vicinity of such land. Standing crops, tools, implements and equipment such as tractors will, however, be exempt. Agricultural wealth will be added to other wealth for the purposes of the tax at the existing rates with effect from the assessment year 1970-71. This measure will yield additional revenue of Rs 5 crores in a full year. But in view of what I have just said, there would be no revenue gain in the coming year. It is my intention to pass on the net proceeds of the revenue of wealth tax on agricultural property to the states as grants-in-aid. I shall, however, consider as to how genuine agriculturists can be exempted from the purview of this measure and will be moving the necessary amendment to the Finance Bill at the appropriate time.

I am proposing a number of changes in the scheme of advance tax payments so as to make it more effective and also to reduce the burden of compliance on small-income tax payers. I am also proposing certain changes in the scale of penalties under the Wealth Tax Act for failure to furnish returns of net wealth and to produce accounts, documents, etc. Another change proposed is meant to ensure the smooth working of the provision made last year for greater use of the banking system in making payments for business expenditure.

Honourable members are aware that ordinarily it is not possible for individuals to escape taxation on their income by transferring their assets to their spouse or minor children. This is, however, often circumvented by use of the special provisions relating to taxation of a Hindu undivided family as a separate unit. I intend to close this loophole by making a suitable provision in the amendment bill.

Altogether the changes in direct taxation that I have proposed will yield an additional revenue next year of Rs 11 crores for the centre and Rs 2.5 crores for the states.

Posts and Telegraphs

The Posts and Telegraphs Department will again run into a deficit next year. It is, therefore, proposed to revise from dates to be notified certain telephone and telegraph tariffs based broadly on the recommendations of the Tariff Enquiry Committee. A memorandum showing the proposed changes is being circulated along with the budget papers. The telephone rentals in the four principal cities of Bombay, Calcutta, Madras and Delhi as also for other exchanges will be raised. The directory enquiry service, which was hitherto free, will be charged. The additional charge for particular person and fixed time trunk calls will now be uniformly 50 per cent of the basic charge. Increases are also proposed on greetings telegrams, multiple telegrams and telex and a few other services. These changes are expected to yield in a full year Rs 6.46 crores, and would be just sufficient to cover the anticipated revenue deficit. The effect of these changes has been accounted for in reckoning the total internal resources of public undertakings.

To sum up, the net additional revenue accruing to the centre next year from the measures of taxation I have proposed would be about Rs 100 crores, of which Rs 11 crores would be under direct taxes, Rs 80 crores under excise duties and Rs 9 crores under customs duties after allowing for the reduction of Rs 23 crores in export duties. In addition, a sum of about Rs 27 crores will accrue to the states.

I may now summarise the centre's resources position for the next year. The total gross revenue, after taking into account the additional taxation measures, is estimated at Rs

3,519 crores, of which Rs 519 crores will accrue to the states leaving Rs 3,000 crores for the centre. Non-Plan expenditure on revenue account, including grants to states, interest charges and defence expenditure, is placed at Rs 2,558 crores, leaving a non-Plan revenue surplus of Rs 442 crores. Next year's market borrowing and external borrowing, net of repayments, are estimated at Rs 106 crores and Rs 691 crores respectively. After taking into account the transactions under miscellaneous debt deposit heads and after providing for non-Plan capital expenditure and loans including buffer stock provision and cash losses of some public sector undertakings, the resources on capital account will be Rs 1,046 crores. The centre's budgetary resources for the Plan are accordingly Rs 1,738 crores, including Rs 250 crores of deficit financing. In addition, the public sector undertakings, including the Railways and Posts & Telegraphs, are expected to find Rs 165 crores for the Plan out of their own resources. The total availability of resources for the Plan next year, exclusive of the states' resources, will thus be Rs 1,903 crores. Of this, Rs 615 crores have already been earmarked for Plan assistance to the states and Rs 65 crores to the union territories, leaving Rs 1,223 crores for the central Plan proper including the centrally sponsored schemes.

Total Provision

Next year's budget makes a total Plan provision of Rs 1,738 crores of which Rs 402 crores are in the revenue budget and Rs 1,336 crores are in the capital budget. The provision on revenue account includes Rs 185 crores as grants-in-aid for state Plan schemes, being 30 per cent of the block central Plan assistance payable from next year as against an average of 20 to 25 per cent at present. The rest of the Plan provision in the revenue budget is on account of union territories' Plan as also central Plan. The centrally sponsored schemes account for a provision of Rs 117 crores taking revenue and capital sections together.

The central Plan next year makes a larger provision as compared to the current year for steel production, ports, petrochemicals, fertilizer plants, development of iron ore mines for export and copper and aluminium production. In the main, the increase in outlay reflects the higher tempo of activity on continuing schemes. Even so, it will give a fillip to industries engaged in construction activity and specially the engineering industries. It is also proposed to accelerate the programme of construction of storage for foodgrains. The institutional arrangements for agricultural credit, particularly for fertilizer distribution and rural electrification, are being strengthened with necessary budget support. Larger outlays have also been proposed for family planning.

Sir, I cannot emphasise too strongly that my tax proposals and the modest increase in Plan outlays next year should be considered against the background of the severe constraint on our resources. For the past few years, the surplus on revenue account has been declining. For the next year, a revenue deficit of Rs 60 crores at existing rates of taxation is anticipated in the centre's budget. Even after the proposed measures of additional taxation, the deficit will be converted into a surplus of Rs 40 crores only. On capital account, the position has not shown undue deterioration only because food assistance has been maintained at a high level due to spill-over of imports from this year to next year. As self-reliance in foodgrains is achieved, this resource will progressively dwindle; and if development outlays are not to be curtailed unduly, other measures of raising resources will have to be devised. Honourable members will also appreciate that the all-pervasive objective of growth with social and political stability and increasing self-reliance cannot be achieved by budgetary policy alone. It will require the disciplined participation of every section of the community and every region of the country. Only so can we carry this great nation forward in the struggle against mass poverty which is as rewarding as it is arduous. I can only hope that the budget I have had the honour to present makes a modest contribution towards this end.

Finance Bill: Proposals Explained

FOLLOWING IS the text of the official memorandum explaining the salient features of the new Finance Bill. which was introduced in Parliament on February 28. in order to give effect to the fiscal measures proposed in the central budget for 1969-70 (Clauses referred to are Clauses in the Bill):

In the sphere of direct taxes, the provisions in the Bill relate to the following matters:

(i) Prescription of the rates of income-tax (including surcharges where applicable) on incomes liable to tax for the assessment year 1969-70; rates at which tax is deductible at source during 1969-70 from interest, dividends, salaries and other categories of income liable to such deduction under the Income-tax Act; and the rates for computation of advance tax and charging of income-tax on current incomes in certain cases for the financial year 1969-70.

(ii) Amendments to the Income-tax Act, 1961 with a view to rationalising and simplifying some of its provisions, including the definition of "a company in which the public are substantially interested" and the scheme of payment of advance tax; facilitating personal savings over a wider area and investments in shares of Indian companies; and providing developmental incentives and tax reliefs in certain directions.

(iii) Amendment to the Companies (Profits) Surtax Act, 1964 to delete the present provision in the case of widely-held domestic companies, for a ceiling on their aggregate liability to corporation tax at 70 per cent of their total income, since this ceiling has now lost its significance and is misleading.

(iv) Amendments to the Wealth-tax Act, 1957, to extend the levy of wealth-tax with effect from the assessment year 1970-71, to agricultural property; and to make more effective the provisions for levying penalty for failure, without reasonable cause, to furnish the return of net wealth and to produce documents and accounts, called for by notice.

2. The Bill follows the principle (adopted since 1967) that changes in the rates of tax as also in other provisions in the tax law should ordinarily be made operative prospectively in relation to current incomes and not to incomes of the past year.

3. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs.

INCOME-TAX

I. Rates of income-tax in respect of incomes liable to tax for the assessment year 1969-70

4. The rates of income-tax (including surcharges on income-tax) on incomes liable to assessment for the assessment year 1969-70 in the case of individuals, Hindu undivided families, registered firms and other categories of non-corporate tax payers are the same as provided in Paragraphs A to D of Part III of the First Schedule to the Finance Act, 1968 for purposes of computation of advance tax and deduction of tax at source from "Salaries" during the financial year 1968-69. The table in Annexure 'A' shows the tax (including surcharge) payable at these rates in the case of individuals in different personal circumstances (unmarried, married, married and with one child, and with two or more children) at selected levels of total income ranging from Rs 4,000 to Rs 10,00,000.

5. In the case of the Life Insurance Corporation of India and other companies, the rates of income-tax on incomes assessable for the assessment year 1969-70 are the same as provided in the First Schedule (Part III, Paragraphs E and F) to the Finance Act, 1968 for computation of advance tax payable during the financial year 1968-69.

II. Rates for deduction of tax at source during the financial year 1969-70 from incomes other than "Salaries".

6. The rates for deduction of tax at source during the financial year 1969-70 from incomes other than salaries (i.e. interest on securities and other interest, dividends and other categories of non-salary income of non-residents) are the same as are applicable under the First Schedule (Part II) to the Finance Act, 1968 for deduction of tax at source during the financial year 1968-69.

III Rates for deduction of tax at source from "Salaries" and computation of advance tax and charging of income-tax in special cases, during the financial year 1969-70.

7. The rates for deduction of tax at source from "Salaries" in the case of individuals during the financial year 1969-70, and also for computation of advance tax payable in that year in the cases of all categories of tax payers, have been shown elsewhere. These rates are also applicable for deduction of tax at source during 1969-70 from retirement annuities payable to partners of registered firms engaged in certain professions (chartered accountants, solicitors, lawyers, etc.) and for charging income-tax during 1969-70 on current incomes in special cases, e.g. for the provisional assessment of shipping profits arising in India to non-residents.

8. The above-mentioned rates are different from the rates of tax specified in the Bill for the assessment of incomes liable to tax for the assessment year 1969-70 in certain spheres as explained in the following paragraphs.

9. **Individuals, Hindu undivided families, unregistered firms, associations of persons, etc.**—At present, the rates of basic income-tax on the incomes of these categories of tax payers rise progressively from five per cent on income in the slab Rs 1-5,000, to 75 per cent on incomes above Rs 2,50,000. A union surcharge at 10 per cent of the basic income-tax is also chargeable in all cases. On income in the slab Rs 10,001-15,000, the rate of basic income-tax at present is 15 per cent; on income in the slab Rs 15,001-20,000, 20 per cent; in the slab Rs 20,001—25,000, 30 per cent; and in the slab Rs 25,001—30,000, the rate is 40 per cent. Under the Bill, it is proposed to make an increase in the rate of basic income-tax on income in the slab Rs 10,001—15,000 by two per cent, from 15 per cent to 17 per cent and on income in the slab Rs 15,001—20,000 by three per cent, from 20 per cent to 23 per cent. The proposed increases will bring about a smoother progression in the rates of basic income-tax on incomes between Rs 10,000 and Rs 30,000. The union surcharge is proposed to be continued at the rate of 10 per cent of the basic income-tax at all levels of income.

10. The table overleaf shows, at selected levels of income of a resident married individual with two or more dependent children, the comparative incidence of tax (including surcharge) at (a) the rates applicable during the financial year 1968-69 for purposes of computation of advance tax and deduction of tax at source from "Salaries" [and proposed to be made applicable to incomes assessable for the assessment year 1969-70]; and (b) the rates proposed in the Bill for the computation of

advance tax and deduction of tax at source from "Salaries" during the financial year 1969-70.

RESIDENT MARRIED INDIVIDUAL WITH MORE THAN ONE DEPENDENT CHILD: COMPARATIVE INCIDENCE OF TAX AT SELECTED LEVELS OF INCOME

(In rupees)

Income	Tax (including surcharge) at the rates applicable during the financial year 1968-69 [as stated at (a)]	Tax (including surcharge) at the rates in the Bill for computation of 'advance tax' and deduction of tax at source from "Salaries" during 1969-70 [vide (b)]	Increase in tax
5,000	11	11	—
7,500	286	286	—
10,000	561	561	—
12,500	974	1,029	55
14,000	1,221	1,309	88
15,000	1,386	1,496	110
16,000	1,606	1,749	143
18,000	2,046	2,255	209
20,000	2,486	2,761	275
25,000	4,136	4,411	275
40,000	11,836	12,111	275
70,000	30,536	30,811	275
1,00,000	51,986	52,261	275
2,00,000	1,28,986	1,29,261	275
3,00,000	2,08,736	2,09,011	275
5,00,000	3,73,736	3,74,011	275

11. The table in Annexure B shows, in the case of of the proposed increases in the rates of basic income-tax on incomes in the slabs Rs 10,001-15,000 and Rs 15,001-20,000, the amount of additional tax (including surcharge at 10 per cent thereof) payable on income at the level of Rs 15,000 will be Rs 110 and that, at the income levels of Rs 20,000 and above, the additional tax payable will, in each case, be Rs 275 only.

11. The table in Annexure B shows, in the case of individuals, Hindu undivided families, unregistered firms, associations of persons, etc., the income-tax payable at the rates as proposed in the Bill for computation of advance tax and deduction of tax from salaries during the financial year 1969-70, on total incomes from Rs 6,000 to Rs 20,00,000.

12. **Co-operative societies**—Co-operative societies are at present entitled to several concessions under the Income-tax Act in the computation of their taxable income and they also enjoy the benefit of concessional rates of tax on their chargeable income under the annual Finance Acts. The present rate structure of tax in the case of co-operative societies is historically linked to the rate structure of tax in the case of individuals, subject to certain variations, and is not simple. Co-operative societies are exempt from tax on the whole of their income from specified business activities, viz. banking; cottage industry; marketing of agricultural produce of their members; supply of agricultural implements, seeds, etc to the members; processing, without the aid of power, of the agricultural produce of the members; and, in the case of a primary co-operative society, the income from supplying milk raised by its members to a federal milk co-operative society. Co-operative societies, in general, are also exempt from tax on any other business income (except from insurance business) up to an amount of Rs 15,000.

13. Further, a co-operative society, is exempt from tax on

the whole of the amount of interest and dividends received by it from any other co-operative society and also the income from letting of godowns and warehouses for storage or processing or facilitating the marketing of commodities. Where the gross total income of a co-operative society does not exceed Rs 20,000 and it is not a housing society or an urban consumers' society or a society carrying on transport business or manufacturing operations with the aid of power, it is also exempt from tax on the whole of its income from house property and interest on securities. Where a co-operative housing society allots or leases its buildings to its members under a co-operative house building scheme, the income from such house property is assessable directly in the hands of the members and not in the hands of the society.

14. At present, a co-operative society whose chargeable income (as computed after deducting incomes exempt from tax, including the Rs 15,000 referred to in paragraph 12) does not exceed Rs 4,000 is not liable to any tax. A co-operative society whose chargeable income exceeds Rs 4,000 is liable to tax thereon at progressive rates rising from 5 per cent on income in the slab Rs 1-5,000, to 40 per cent on income above Rs 25,000. A union surcharge at 10 per cent of the basic income-tax is also levied in all cases. Up to Rs 20,000 of the chargeable income, the rates of tax in the case of a co-operative society are the same as in the case of an individual. On the chargeable income of a co-operative society in the slab Rs 20,001-25,000, the rate of basic income-tax is 25 per cent, as against 30 per cent in the case of an individual. The chargeable income of a co-operative society above Rs 25,000 bears income-tax at a flat rate of 40 per cent, as against rates rising progressively from 40 per cent to 75 per cent in the case of an individual.

15. As against the above, the Bill proposes to make the following changes in the scheme of taxation of the income of co-operative societies in order to rationalise and simplify it:

(i) The amount of business income exempt from tax in the generality of cases of co-operative societies is sought to be increased by Rs 5,000, from Rs 15,000 to Rs 20,000. Further, the benefit of this exemption up to Rs 20,000 is proposed to be extended also in respect of incomes derived by co-operative societies from insurance business.

The above-mentioned change is sought to be made operative with effect from April 1, 1970, i.e., for the assessment year 1970-71 and subsequent years.

(ii) A new rate structure of tax, different from that in the case of individuals, is proposed to be laid down in the case of co-operative societies for the purpose of computation of advance tax during the financial year 1969-70.

Under the new rate structure of tax, the rate of basic income-tax on a co-operative society's chargeable income (as computed after deducting the incomes exempt from tax) in the slab Rs 1-10,000 will be 15 per cent; on chargeable income in the slab Rs 10,001-20,000, 25 per cent; and on chargeable income above Rs 20,000, it will be 40 per cent. A union surcharge at 10 per cent of the basic income-tax will be leviable in all cases, as at present.

16. In consequence of the proposed increase in the amount up to which business income will be exempt from tax in the generality of cases of co-operative societies by Rs 5,000 (from Rs 15,000 to Rs 20,000), the present exemption from tax of co-operative societies having a chargeable income not exceeding Rs 4,000 is proposed to be discontinued.

17. The table alongside shows, in the case of co-operative societies, the comparative incidence of tax under the existing law and the law as proposed to be changed under the Bill, at selected levels of income derived from business (other than banking, cottage industry, etc., the whole of the income from which is exempt from tax, and insurance business).

18. It will be observed from this table that on a gross total income up to Rs 30,000 the incidence of tax on co-operative societies on the proposed basis will be either the same as or marginally less than under the existing law. On a gross total income above Rs 30,000, the incidence of tax on the proposed basis will be marginally higher than under the existing law, the additional tax payable being not more than Rs 275 in any case. This increase is in line with the similar increase in the indidence of tax on personal incomes under the proposals in the Bill explained in paragraphs 9-11 above.

19. **Registered firms**—At present, registered firms are chargeable to tax on their total income separately but the tax payable by them is allowed as a deduction in computing the individual shares of the partners in the income of the firm. Under the existing rate schedule of tax in the case of registered firms, the first Rs 25,000 of their total income does not bear any tax, but on the balance, tax is chargeable at rates of basic income-tax rising progressively from 6 per cent on income in the slab Rs 25,001-50,000, to 20 per cent on income above Rs 1,00,000. Registered firms are also liable

STATEMENT SHOWING COMPARATIVE INCIDENCE OF TAX IN THE CASE OF CO-OPERATIVE SOCIETIES, AT SELECTED LEVELS OF BUSINESS INCOME AS STATED ABOVE

(in rupees)

Business income (before deduction of the income exempt from tax)	Tax including surcharge payable: On existing basis	Tax including surcharge payable: On proposed basis	Difference between columns (2) and (3): Decrease	Difference between columns (2) and (3): Increase
1	2	3	4	5
15,000	—	—	—	—
16,000	—	—	—	—
17,000	—	—	—	—
18,000	—	—	—	—
19,000	—	—	—	—
19,500	220		220	—
20,000	275	—	275	—
21,000	385	165	220	—
22,000	495	330	165	—
23,000	605	495	110	—
24,000	715	660	55	—
25,000	825	825	—	—
26,000	990	990	—	—
27,000	1,155	1,155	—	—
28,000	1,320	1,320	-	—
29,000	1,485	1,485	—	—
30,000	1,650	1,650	—	—
31,000	1,870	1,925	—	55
32,000	2,090	2,200	—	110
33,000	2,310	2,475	—	165
34,000	2,530	2,750	—	220
35,000	2,750	3,025	—	275
36,000	3,025	3,300	—	275
37,000	3,300	3,575	—	275
38,000	3,575	3,850	—	275
39,000	3,850	4,125	—	275
40,000	4,125	4,400	—	275
41,000	4,565	4,840	—	275
42,000	5,005	5,280	—	275
43,000	5,445	5,720	—	275
44,000	5,885	6,160	—	[illegible]
45,000	6,325	6,600	—	275

to pay ordinary surcharge at 20 per cent of the basic income-tax (10 per cent in the case of a registered firm deriving income mainly from a profession) and a special surcharge at 10 per cent of the aggregate amount of the basic income-tax and the ordinary surcharge.

20. The Bill proposes to enlarge the area of taxation of the income of registered firms by reducing the amount of the initial slab of income exempt from tax a present, from Rs 15,000 to Rs 10,000. The rate of tax on income in the slab Rs 10,001-25,000 is proposed to be fixed at four per cent. The rates of ordinary surcharge as well as the special surcharge are proposed to be continued unchanged. The revised rate schedule of tax in the case of a registered firm is proposed to be made operative for the purpose of computation of advance tax payable during the financial year 1969-70.

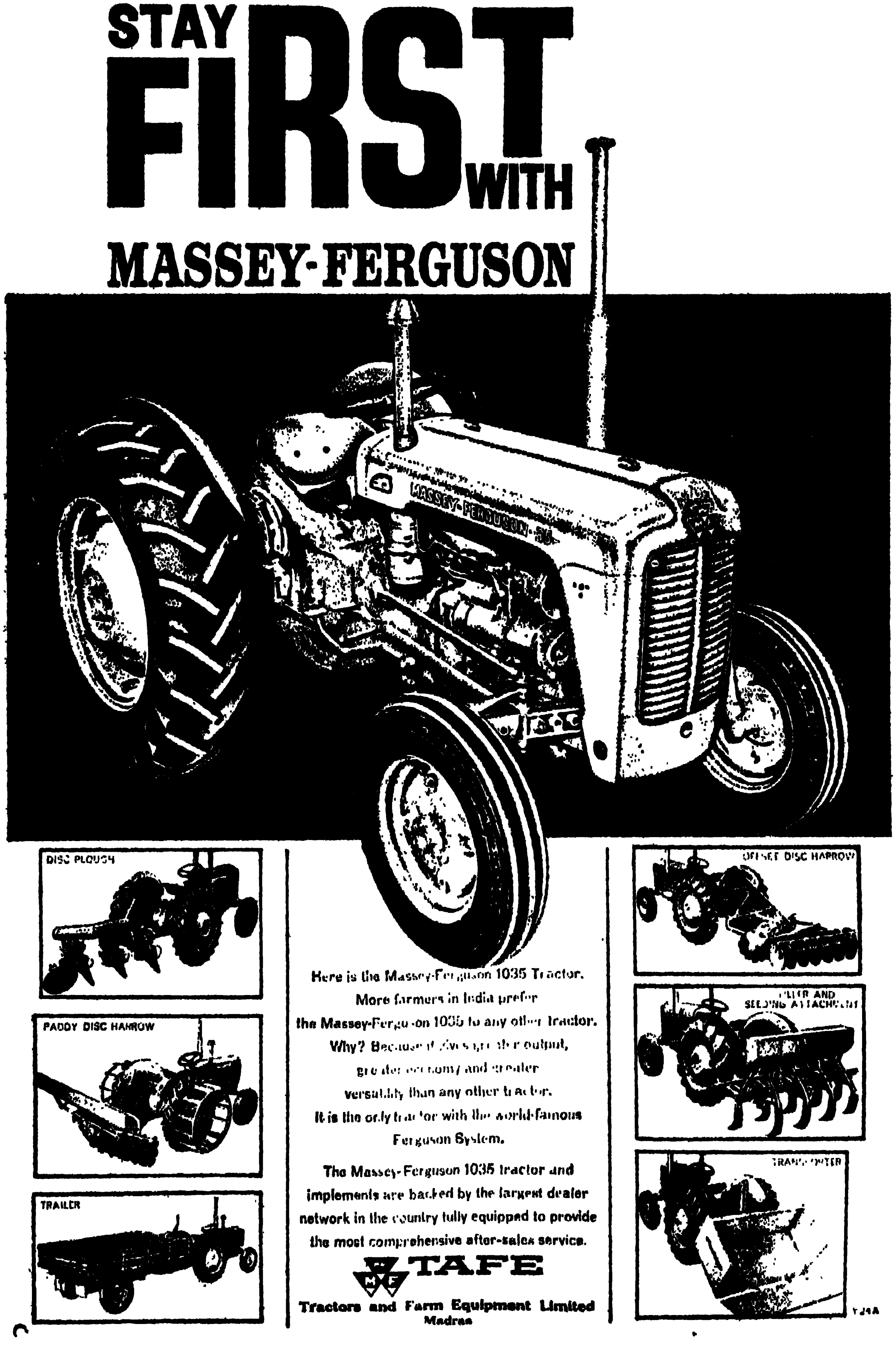
21. In consequence of the proposed levy of basic income-tax on incomes of registered firms in the slab Rs 10,001-25,000 at four per cent, a firm with a total income of Rs 25,000 and above will be liable to pay in each case an additional amount of tax (including surcharges) of Rs 792 (Rs 726 where the firm derives income mainly from a profession). The partners of the firm will, of course, recoup a part of this additional tax as it is allowed as a deduction in computing their individual shares in the income of the firm. The table alongside shows the comparative incidence of tax on a registered firm and its partners taken together under the existing provisions of the law and on the basis proposed in the Bill in a case where the firm derives income from business and has (a) two partners and (b) four partners, sharing the profits of the firm in equal proportions:

COMPARATIVE INCIDENCE OF TAX ON A REGISTERED FIRM AND ITS PARTNERS TAKEN TOGETHER ON THE EXISTING BASIS AND ON THE PROPOSED BASIS

(In rupees)

Income of the registered firm	Aggregate amount of tax payable by the registered firm and all its partners		Increase in tax [Col. 3 minus Col. 2]
	Existing basis	Proposed basis	
1	2	3	4
FIRM WITH TWO PARTNERS			
16,000	682	963	281
20,000	1,122	1,592	470
24,000	1,782	2,399	617
40,000	5,900	6,516	616
60,000	14,670	15,110	440
1,00,000	39,128	39,480	352
FIRM WITH FOUR PARTNERS			
16,000	—	317	317
20,000	44	544	500
24,000	484	1,143	659
40,000	3,300	4,008	708
60,000	8,520	9,180	660
1,00,000	23,184	28,712	528

(Clauses 2 & 10, and the First Schedule)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IV. **Surtax on the chargeable profits of companies**

22. **Surtax**—The Companies (Profits) Surtax Act, 1964 had been amended by the Finance Act, 1968 to reduce the rate of surtax on the net chargeable profits of companies with effect from the assessment year 1969-70 by 10 per cent from 35 per cent to 25 per cent. The Bill does not propose to make any change in the rates of surtax on companies.

23. **Removal, in the case of widely-held domestic companies (i.e., companies in which the public are substantially interested), of the ceiling on their aggregate liability to income-tax and surtax at 70 per cent of their total income**—The Companies (Profits) Surtax Act provides, in the case of a widely-held domestic company, a ceiling over its aggregate liability to income-tax and surtax at 70 per cent of its total income. This provision was meaningful at the time it was introduced in 1965 when the rate of surtax on the net chargeable profits of companies was 40 per cent, and domestic companies were also liable to an additional income-tax with reference to their distributions of equity dividends. With the reduction in the rate of surtax to 25 per cent from the assessment year 1969-70, and also the discontinuance of the levy of additional income-tax on domestic companies with reference to their distributions of equity dividends, the aggregate liability of a widely-held domestic company to income-tax and surtax can, in no case, go beyond 60.95 per cent for a company engaged in a priority industry and 66.25 per cent in other cases. In fact, at normal levels of profitability, the aggregate liability to income-tax and surtax in such cases is significantly lower than the above-mentioned percentages. Thus, in the case of a widely-held domestic company which is engaged in any of the specified priority industries and has a profitability in relation to its capital base (including reserves, debentures and long-term loans) of 25 per cent, 30 per cent, or 40 per cent, the aggregate liability to income-tax and surtax will be 50.95 per cent, 52.62 per cent, and 54.70 per cent, respectively. Where such a company derives income from any other activity, its aggregate liability to income-tax and surtax at these levels of profitability of 25 per cent, 30 per cent, and 40 per cent, will be 56.25 per cent, 57.92 per cent, and 60 per cent, respectively

24. In view of the position stated above, the ceiling of 70 per cent of the total income laid down in the Companies (Profits) Surtax Act in the case of widely-held domestic companies has now lost its significance altogether and is even misleading as it is likely to give rise to the erroneous impression that the aggregate liability to income-tax and surtax in the case of such a company could be as high as 70 per cent. The Bill, therefore, proposes to delete the provision in the Companies (Profits) Surtax Act relating to the above-mentioned ceiling.

(Clause 25)

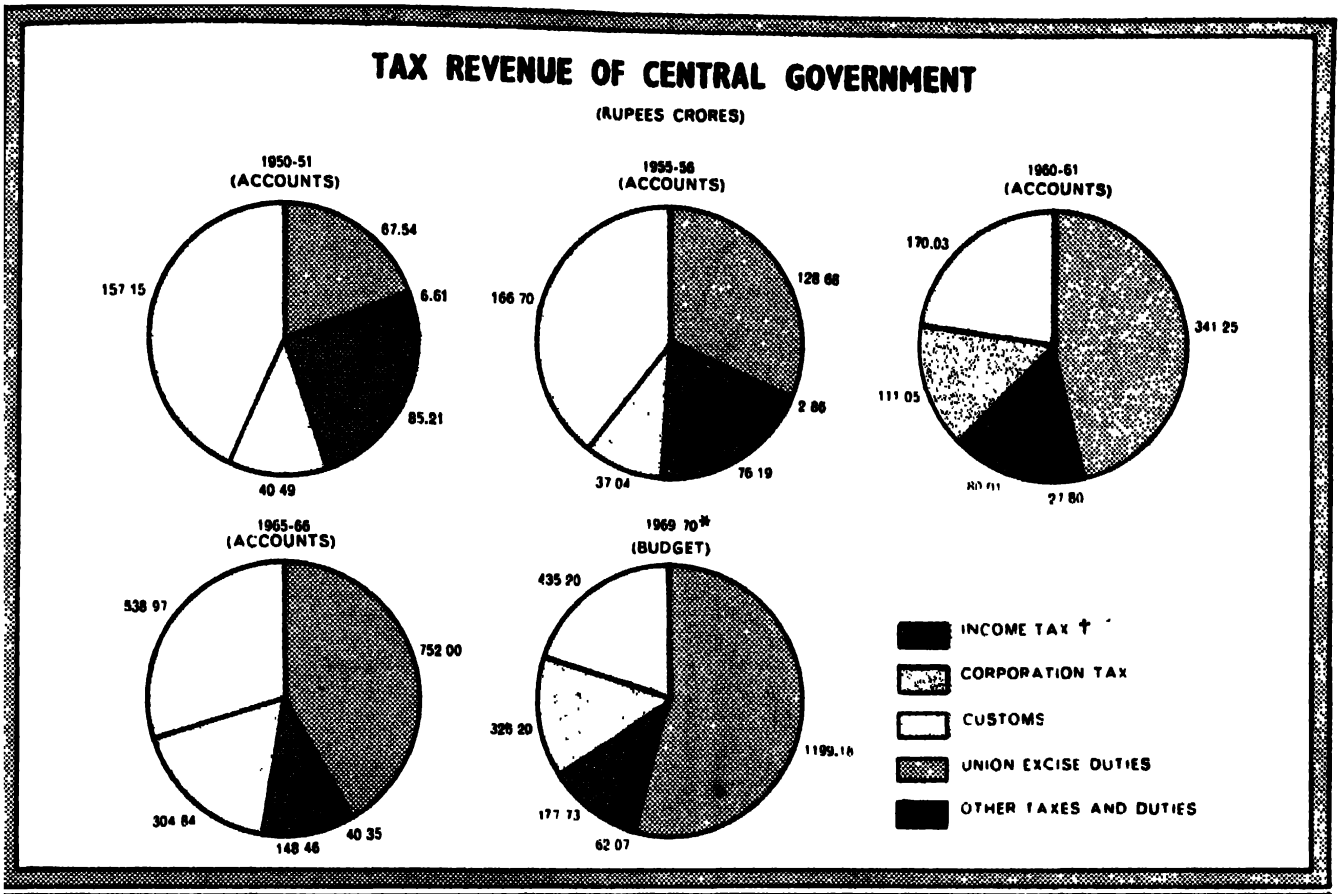
V. **Proposed amendments to the Income-tax Act**

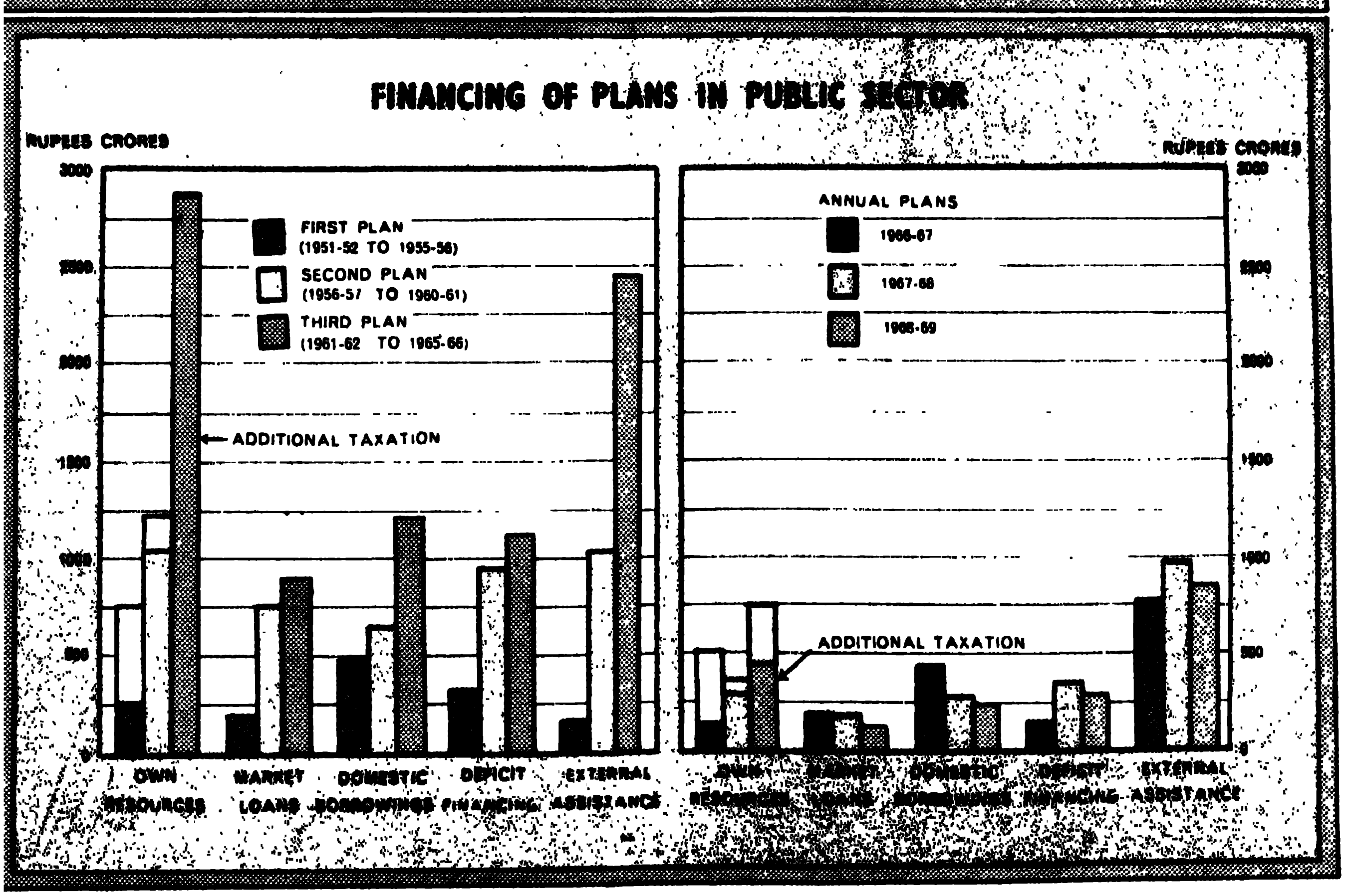
25. The amendments proposed under the Bill to the provisions in the Income-tax Act relating to co-operative societies have been dealt with before in paragraphs 12 to 18. The substance of the other amendments to the Income-tax Act under the Bill is explained in the following paragraphs.

Measures for rationalising and simplifying some of the provisions of the Income-tax Act.

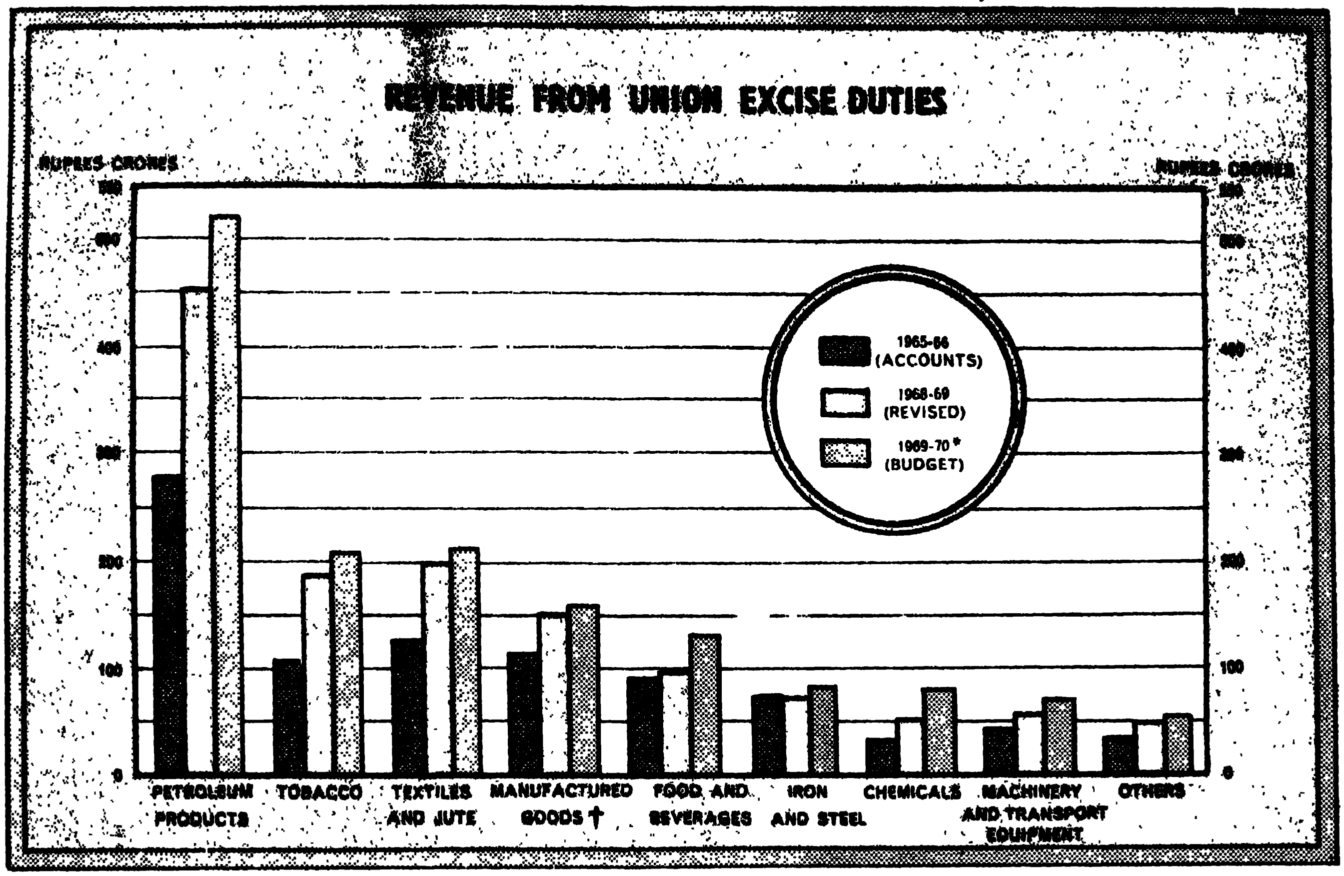
26. **Treatment of public companies whose shares are listed in a recognised stock exchange in India as widely-held companies (i.e., companies in which the public are substantially interested)**—The Income-tax Act makes a distinction in tax treatment as between a domestic company in which the public are substantially interested and a closely-held domestic company (i.e., a domestic company in which the public are not substantially interested). Closely-held companies are required (subject to certain exceptions) to distribute dividends up to the statutory percentage of their distributable income, failing which they are liable to pay an additional income-tax with reference to their undistributed profits. Closely-held companies are (subject to certain exceptions) also liable to income-tax on their income at rates which are higher than in the case of widely-held domestic companies.

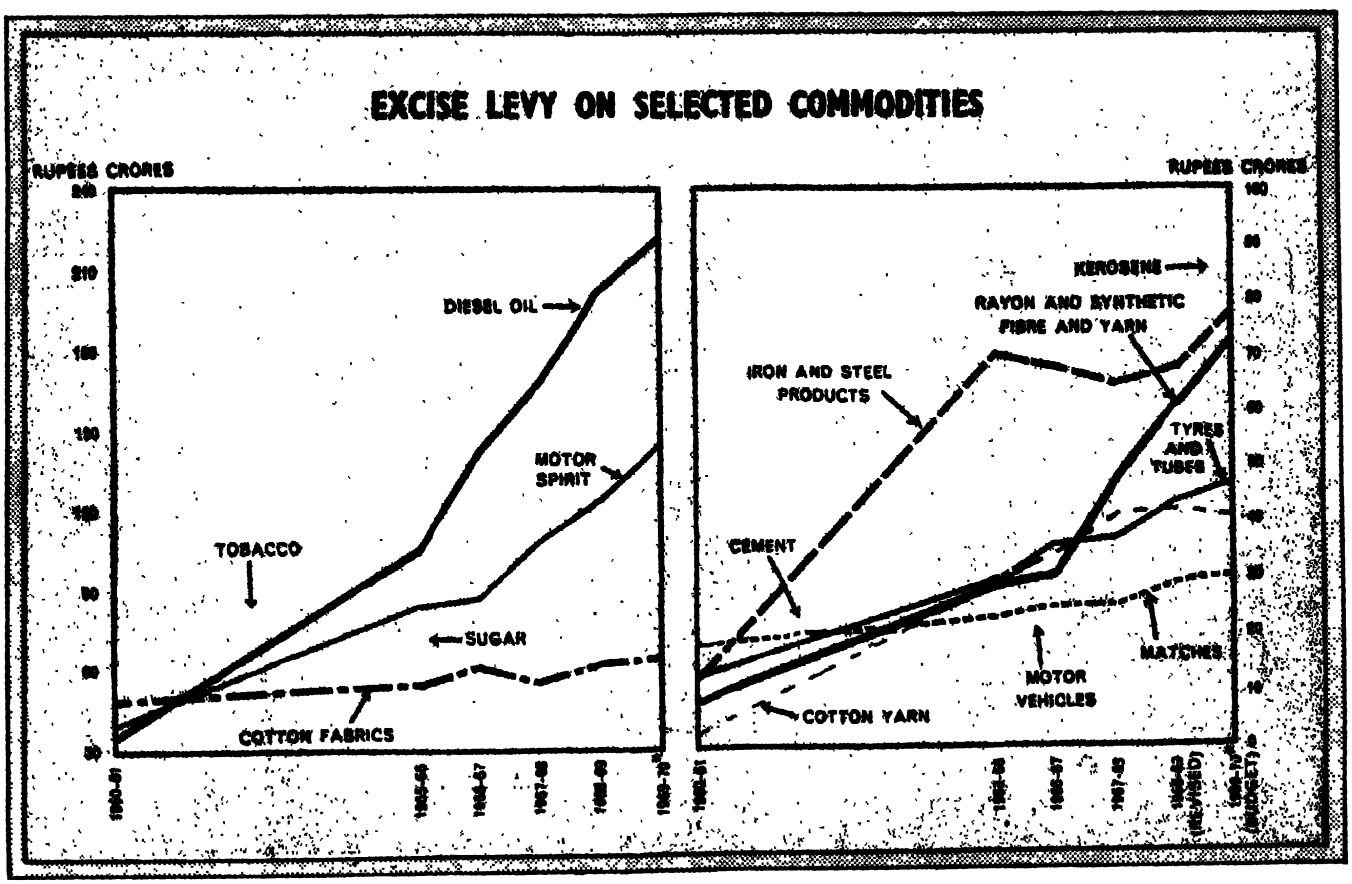
27. A public company is treated, for the purpose of income-tax, as "a company in which the public are substantially interested" only if it satisfies the various tests laid down in the definition of that term in the Income-tax Act. One of these tests is that not less than 50 per cent of its equity capital should have been beneficially held throughout the relevant accounting year by government, a statutory corporation, any other company in which the public are substantially interested (or a wholly-owned subsidiary of such a company) or by members of the public (excluding a director of the company or a closely-held company). Another test is that the shares in the company were dealt with in any recognised stock exchange in India at any time during the relevant accounting year and were freely transferable by the shareholders to other members of the public. A further test required to be satisfied





Own resources include balance from current revenues, additional taxation, surpluses of public sector undertakings, railways and others.
*Including the effect of the Budget proposals. †Excluding states' share.





* Including the effect of the Budget proposals.
† Goods other than textiles and jute.

by the company is that its affairs or shares carrying more than 50 per cent of its total voting power were, at no time during the relevant accounting year, controlled or held by five or fewer persons In applying this test, persons who are relatives of one another, and persons who are nominees of any other person together with that other person, are treated as a single person The application of all these tests, which have to be satisfied by a company cumulatively, involves an enquiry into the control and distribution of the ownership of its equity shares throughout the relevant accounting year, which is time-consuming and gives rise to uncertainty about the company's tax liability, besides leading to litigation

28 The Bill, therefore, proposes to make a provision in the Income-tax Act to secure that a public company whose equity shares are listed in a recognised stock exchange in India in accordance with Securities Contracts (Regulation) Act, 1956 and the rules made thereunder will be treated as 'a company in which the public are substantially interested" without applying to it any of the above-mentioned tests These tests (other than the one relating to the shares in the company being the subject matter of dealings in a recognised stock exchange in India, which is proposed to be deleted in consequence of the new provision stated above) will be applicable only in the case of a public company whose equity shares are not listed in a recognised stock exchange in India

29. The new provisions are sought to be made effective from April 1, 1970 i e, for the assessment year 1970-71 and subsequent years

(Clause 3)

Rationalisation and simplification of the existing scheme for payment of advance tax under the Income-tax Act

30 **Existing Scheme of payment of advance tax** The Income-tax Act requires the payment of advance tax during every financial year in equal instalments on specified dates on the tax payer's current income (other than capital gains) liable to tax for the assessment year next following the financial year The advance tax is payable only where the income subject to advance tax exceeds specified limits which, at present, are Rs 2,500 in the case of a company or a local authority, Rs 27,500 in the case of a registered firm, and Rs 6,500 in any other case

31 In the case of a person who has already been assessed to income-tax, the advance tax is required to be paid, with reference to the last assessed income of the taxpayer, on the issue of a notice of demand by the Income-tax Officer A person who has hitherto not been assessed to tax is required to pay advance tax voluntarily with reference to his current income as estimated by him The amount of the advance tax is computed on the income subject to advance tax (i e, the last assessed total income or, as the case may be the current income estimated by the tax payer, as reduced by the capital gains, if any) at the rates prescribed in the annual Finance Act The advance tax so calculated is reduced by the amount of the tax deductible at source on the net amount of income subject to such deduction (e g, interest, dividends, etc) included in the income subject to advance tax The balance amount arrived at after such deduction is payable as advance tax

32 The advance tax is payable in three equal instalments by September 1, December 1 and March 15 in the financial year in relation to the sources of income for which the tax payer has either maintained no accounts or has maintained accounts for a period ending on any date between January 1 and April 30 In relation to other sources of income (for which accounts have been maintained for a period ending on or before December 31, (the advance tax is payable in four equal instalments by June 1, September 1, December 1 and March 1 of the financial year Where the tax payer has more than one source of income and has accounts ending on different dates for these sources say the calendar year for one source of income and the financial year ending on March 31 for another source, the advance tax payable in relation to these sources of income has to be calculated under the present law separately, the advance tax in respect of the former source being payable in four equal instalments, and for the latter, in three equal instalments

33 A tax payer who is required to pay advance tax on the basis of his last assessed income has the option to pay a lower amount of advance tax on his own computation if his current income, according to his own estimate, would be lower than the income on which advance tax has been demanded from him Under the present law, there is no obligation on the tax payer to pay a higher amount of advance tax than that demanded from him, where, according to his estimate, his current income would be greater than that on which advance tax has been demanded from him

34 Where the advance tax paid by a person exceeds the amount of tax determined to be payable by him for the relevant assessment year on regular assessment, he is entitled to receive simple interest at nine per cent per annum from the government on the excess payment for the period from April 1

of the relevant assessment year up to the date on which the assessment is completed. Conversely, where the advance tax paid by a person on his own estimate falls short of 75 per cent of the amount of tax determined to be payable by him on regular assessment, he is liable to pay simple interest at nine per cent per annum on the amount of the shortfall for the period from April 1 of the relevant assessment year up to the date of completion of the assessment. Similarly, a person who has hitherto not been assessed to tax and fails to furnish an estimate of the advance tax payable by him is liable to pay simple interest calculated at nine per cent per annum on 75 per cent of the assessed tax. Interest is also payable in cases where the tax payer underestimates the advance tax payable by him in any of the first three instalments and makes up the balance only in the last instalment.

35. Further, a penalty is imposable in the case of a person who intentionally underestimates the amount of advance tax payable by him or, in a case where he has hitherto not been assessed to tax, fails, without reasonable cause, to furnish an estimate of the advance tax payable by him.

36. **Proposed changes in the scheme of payment of advance tax.**—It is proposed to make certain changes in the existing scheme of payment of advance tax, on the following lines, in order to rationalise and simplify the scheme and also to reduce the burden of compliance on small-income tax payers:

36.1. No advance tax will be payable where the income subject to advance tax does not exceed the limits set forth below:

(a) In the case of a company or a local authority [In these cases the limit is the same as at present]	Rs	2,500
(b) In the case of a registered firm [The present limit is Rs 27,500]	Rs	30,000
(c) In the case of a person other than a company, a local authority or a registered firm—		
(1) In the case of a non-resident	Rs	5,000
(2) In other cases [Presently, the limit in the case of non-residents is Rs 2,500 and in other cases it is Rs 6,500]	Rs	10,000

36.2. The advance tax calculated on the total income will be allowed to be reduced by the full amount of the tax deductible at source on the gross income which is liable to such deduction (e.g. interest, dividends, etc.) and which has been taken into account in computing the total income. This will be in replacement of the present provisions under which the

advance tax is reduced by the tax deductible at source only on the net amount of the income liable to deduction of tax (i.e. the income as computed after allowing the deductions admissible under the Income-tax Act).

36.21. The effect of the proposed changes is illustrated in the following two examples.

COMPUTATION OF ADVANCE TAX IN CASES WHERE THE TOTAL INCOME INCLUDES INCOME ON WHICH TAX IS DEDUCTIBLE AT SOURCE

I. WIDELY-HELD DOMESTIC COMPANY:

Business income		Rs 2,00,000
Inter-corporate dividends	Rs 2,50,000	
Less deduction of 60 per cent thereof under section 80M of the Income-tax Act	Rs 1,50,000	
Net dividends		Rs 1,00,000
Total income last assessed		Rs 3,00,000

Computation of advance tax:

A. **Existing basis**

Income-tax on Rs 3,00,000 @ 55 per cent	Rs 1,65,000
Less tax deductible at source, @ 22 per cent from the inter-corporate dividends of Rs 1,00,000 included in the total income	Rs 22,000
[The tax actually deductible from the gross inter-corporate dividends of Rs 2,50,000 at 22 per cent will be Rs 55,000, as against which only Rs 22,000 is set off against the advance tax.]	
Net advance tax payable by the company	Rs 1,43,000

B. **Proposed basis**

Income-tax on Rs 3,00,000 @ 55 per cent	Rs 1,65,000
Less tax deductible at source, @ 22 per cent, on the gross amount of inter-corporate dividends of Rs 2,50,000 (which has been taken into account in computing the total income of Rs 3,00,000)	Rs 55,000
Net advance tax payable	Rs 1,10,000

Advance tax payable on existing basis (as at A above)	Rs 1,43,000
Advance tax payable on proposed basis (as at B above)	Rs 1,10,000
Reduction in the advance tax payable on proposed basis	Rs 33,000

II. INDIAN COMPANY:

Business income		Rs 1,00,000
Gross interest received	Rs 50,000	
Less interest paid on own borrowings	Rs 30,000	
Net interest		Rs 20,000
Total income last assessed		Rs 1,20,000

Computation of advance tax

A. **Existing basis**

Income-tax on Rs 1,20,000 @ 55 per cent	Rs 66,000
tax deductible at source, @ 20 per cent on the net interest of Rs 20,000 included in the total income	Rs 4,000
[The tax actually deductible from the gross interest of Rs 50,000, @ 20 per cent would be Rs 10,000 as against which only Rs 4,000 is set off against advance tax.]	Rs 62,000
Net advance tax payable	Rs 62,000

B. **Proposed basis**

Income-tax on the total income of Rs 1,20,000, @ 55 per cent	Rs 66,000
Less tax deductible at source, @ 20 per cent from the gross interest of Rs 50,000 (which has been taken into account in computing the total income of Rs 1,20,000)	Rs 10,000
Net advance tax payable	Rs 56,000

Advance tax payable on existing basis (as at A above)	Rs 62,000
Advance tax payable on proposed basis (as at B above)	Rs 56,000
Reduction in the advance tax payable on proposed basis	Rs 6,000

36.22 It will be seen from the foregoing examples that

the adoption of the proposed basis will obviate excess payments of advance tax.

36. 3 Advance tax will be payable in all cases in three equal instalments during the financial year. The due dates of these instalments will be as follows:

(a) In the case of a person whose total income (with reference to which advance tax is payable) to the extent of 75 per cent thereof or more is derived from a source for which the accounting year ends on or before December 31.	June 15, September 15, and December 15.
(b) In any other case	September 15, December 15, and March 15.

36. 31 The above scheme is in replacement of the present scheme under which a tax payer whose accounting year ends after December 31 or who does not maintain any accounts, is required to pay advance tax in three instalments while another tax payer whose accounting year ends earlier, i.e., on or before December 31, is allowed four instalments to pay the advance tax. The proposed amendment will remove this discrimination.

36. 4 It will be obligatory on a person to pay advance tax on his own estimate if the advance tax computed on his current income (i.e., income liable to tax for the assessment year next following the relevant financial year) exceeds the amount of advance tax demanded from him by more than 33⅓ per cent of the latter. Thus, where a tax payer's current income as estimated by him is greater than the income with reference to which advance tax has been demanded from him and the advance tax calculated on such current income is higher than that demanded from him by more than one-third of the latter, he will be required to pay the higher amount of advance tax calculated on his current income. The payment will have to be made on such of the due dates of instalments as have not expired. It will be open to the tax payer to revise his estimate before any of the dates on which the instalments of advance tax are payable by him.

36. 41 Where, at the time of the assessment of the income of the relevant assessment year, it is found that the advance tax paid by the tax payer on his estimate, as stated above, is less than 75 per cent of the assessed tax, he will be liable to pay simple interest at 9 per cent per annum on the amount by which the advance tax actually paid falls short of the full amount of the assessed tax.

36. 42 Where it is found, in the course of the assessment proceedings, that a person has failed, without reasonable cause, to furnish an estimate of the advance tax payable by him as stated above, he will be liable to imposition of penalty. The minimum amount of such penalty will be 10 per cent and the maximum one and a half times the amount by which the advance tax demanded from him falls short of 75 per cent of the assessed tax.

36. 43 Under the present law, a tax payer has the option to pay advance tax on his own estimate if the tax on his current income is less than the advance tax demanded but there is no corresponding obligation on him to pay more if the tax on the current income is going to be higher. The proposed change will remove this lacuna.

36. 5 The interest chargeable from a person in a case where the advance tax paid on his own estimate is less than 75 per cent of the assessed tax will be calculated on the shortfall in the advance tax actually paid from the whole of the amount of the assessed tax (i.e., tax determined on regular assessment), instead of on the shortfall from 75 per cent of the assessed tax as under the present law. Similarly, in the case of a person who has hitherto not been assessed to tax and who fails to furnish an estimate of the advance tax payable by him, the interest chargeable will be calculated on the whole of the assessed tax instead of on 75 per cent of the assessed tax as under the present law.

36. 6 The above-mentioned changes in the scheme of payment of advance tax relating to charging of interest for short-payment of advance tax on the tax payer's own estimate or failure to furnish an estimate of the advance tax payable by him, as also the levy of penalty for failure without reasonable cause, to furnish an estimate of the advance tax payable, are proposed to be made effective from April 1, 1970, for the assessment year 1970-71 and subsequent years. All other changes in the scheme of payment of advance tax are sought to be made effective from April 1, 1969, i.e., in relation to the financial year 1969-70 and later years.

(Clauses 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 and 22)

37. Increase, from Rs 150 to Rs 200 per month in the

standard deduction for maintenance expenditure on, and wear and tear of, motor car owned by a tax payer and used for his employment, in case where the gross salary income is up to Rs 15,000.—A provision was made in the Income-tax Act by the Finance Act, 1968, for the allowance of a standard deduction, in the computation of salary income, for maintenance expenditure on, and wear and tear of, a conveyance owned and used by the tax payer for his employment. In respect of a motor car, the amount of the standard deduction for tax payers with gross salary income up to Rs 15,000 is Rs 150 for every month during which the car is used for purposes of the employment: for those in the salary range up to Rs 25,000, Rs 200 per month; and for tax payers with a gross salary income exceeding Rs 25,000, it is Rs 250 per month.

38. Having regard to the present prices of motor cars produced in our country and the current general level of expenditure on maintenance and runnig of motor cars, it is now proposed to increase the amount of the standard deduction for a motor car in the case of tax payers with gross salary income up to Rs 15,000 from Rs 150 to Rs 200 for every month during which the motor car is used for the purpose of employment.

39. The above change will be effective for and from the assessment year 1970-71, i.e., in relation to salary incomes earned during the financial year 1969-70 and later years.

(Clause 4)

40. **Expenditure in businesses or professions for which any payment exceeding Rs 2,500 at a time is to be made, under section 40A(3) of the Income-tax Act, by a crossed bank cheque or draft—Provision protecting payer against legal proceedings merely on the ground of the payment not having been made or tendered in cash or in any other manner.**—A provision was made by the Finance Act, 1968 in section 40A(3) of the Income-tax Act for the disallowance of expenditure in businesses and professions for which payment is made (after a date to be notified by government) in an amount exceeding Rs 2,500, unless the payment is made by a crossed bank cheque or draft. This provision is not to apply in the cases and circumstances notified in the Income-tax Rules.

41. Under the government's notification No. S.O. 623 dated February 14, 1969, the above-mentioned provision is to have effect in relation to payments made after March 31, 1969. The cases and circumstances in which this provision will not be operative have also been specified in the Income-tax Rules under notification No S.O. 624 dated February 24, 1969. These exceptions—notified after considering the views expressed by Chambers of Commerce and other public bodies on the draft rules published earlier—cover broadly the following categories of payments:

(i) Payments which, under a contract entered into by the tax payer before April 1, 1969, have to be made in legal tender.

(ii) Payments to the cultivator, grower or producer of the products of agriculture, horticulture, apiculture, husbandry (including hides and skins), dairy or poultry farming; fish or fish products; or the pro-

ducts of a cottage industry run without the aid of power.

(iii) Payments made in a village or town not served by any bank to persons ordinarily residing or carrying on any business or profession in any such village or town.

(iv) Payments made to the Reserve Bank of India, State Bank of India, other banking institutions including co-operative banks and land mortagage banks, agricultural credit societies, Life Insurance Corporation, Unit Trust of India and specified financial institutions.

(v) Certain categories of payments made through the banking system e.g., letter of credit, mail or telegraphic transfers, inter-bank book adjustments and bills of exchange made payable only to a bank.

(vi) Payments of terminal benefits such as gratuity or retrenchment compensation payable to low-paid employees or members of their families.

Besides, there is a residuary exception to the operation of the provisions of section 40A(3) in a case where the tax payer establishes that the payment could not be made by a crossed bank cheque or draft due to exceptional or unavoidable circumstances and also furnishes evidence as to the genuineness of the payment and the identity of the payee.

42. At the time of the consideration of the Finance Bill, 1968 in Parliament, apprehensions were expressed in certain quarters that difficulties might arise in the operation of the above-mentioned provision unless persons who make payments by crossed cheques or bank drafts were protected from legal action on the ground that the payment was not made in legal tender. In order to secure the smooth operation of the provisions of section 40A(3), it is now proposed to make a further provision in the Income-tax Act to the effect that where a tax payer makes a payment in an amount exceeding Rs 2,500 by crossed bank cheque or draft in accordance with that section, no person shall be allowed to raise, in any suit or other proceeding, a plea based on the ground that the payment was not made or tendered in cash or in any other manner. This provision is proposed to be made effective from April 1, 1969.

(Clause 5)

Developmental Incentives

43. **Treatment of the cotton and jute textile industries as priority industries for the purposes of development rebate under the Income-tax Act.**—A tax payer who acquires a new ship or instals new machinery or plant for the purpose of his business is entitled, under the Income-tax Act, to a deduction, in the computation of his taxable income, on account of development rebate calculated at a specified percentage of the cost of such ship or machinery or plant. The deduction on account of development rebate is granted over and above the depreciation allowance. The rate of development rebate on new ships is 40 per cent. In respect of new machinery and plant installed up to March 31, 1970, the rate of development rebate under the present law for a 'priority industry' (i.e., an industry manufacturing or producing any of the articles or things specified in the Fifth Schedule to the Income-tax Act) is 35 per cent of the cost of the machinery and plant; and for any other industry, it is 20 per cent. In respect of new machinery and plant installed after March 31, 1970, the rates of development rebate will, under the present law, stand reduced to 25 per cent, and 15 per cent, respectively.

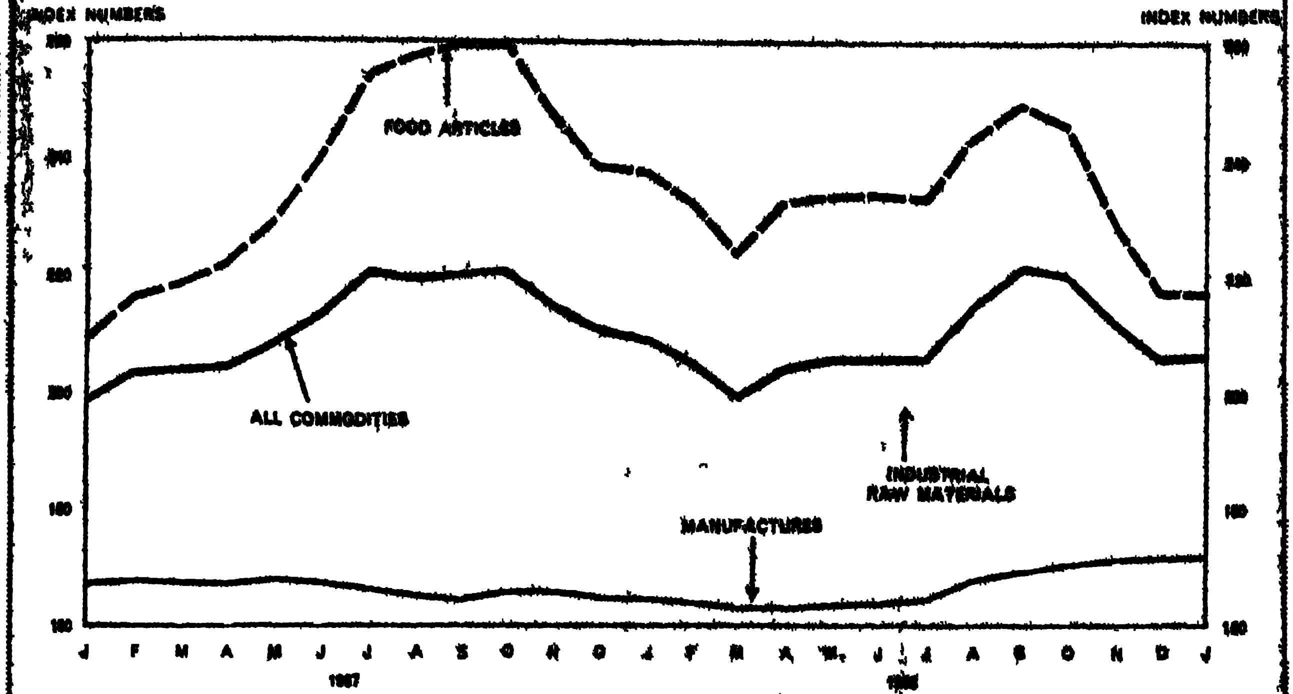
44. The above-mentioned rates of development rebate (including the reduced rates which will be applicable in respect of new machinery and plant installed after March 31, 1970) are proposed to be continued unchanged. However, it is proposed to extend the priority industry rate of development rebate to new machinery and plant installed in the cotton textile industry and jute textile industry, with effect from April 1, 1970, i.e., for the assessment year 1970-71 and subsequent years. This will mean that for all new machinery and plant installed in a cotton textile mill or a jute textile mill in any accounting year relevant to the assessment year 1970-71 (e.g., Samvat Year ending on the Diwali day in 1969, calendar year 1969 or financial year 1969-70) or any later year, development rebate at the higher rate as for priority industries will be admissible. Such higher rate will be 35 per cent of the cost of the new machinery and plant where it is installed up to March 31, 1970, and 25 per cent where it is installed after that date. For this purpose, it is proposed to add the following two items (numbered as items 32 and 33) in the list of articles and things relating to priority industries contained in the Fifth Schedule to the Income-tax Act:

"32 Textiles (including those dyed, printed or otherwise processed) made wholly or mainly of cotton, including cotton yarn, hosiery and rope.

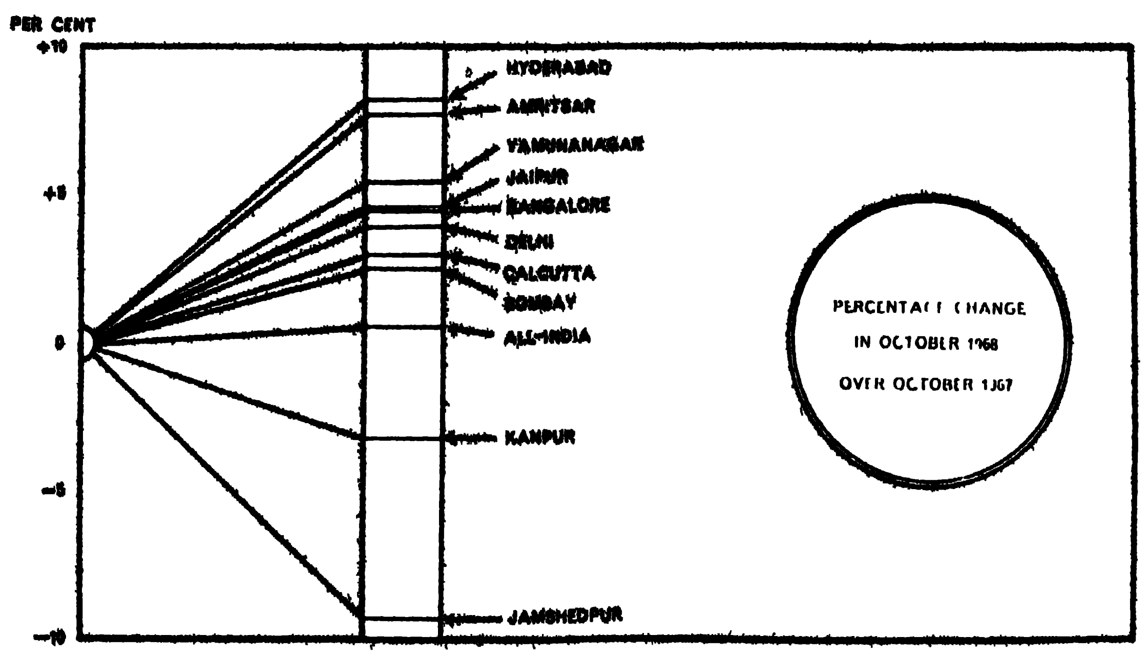
33. Textiles (including those dyed, printed or otherwise

WHOLESALE PRICES

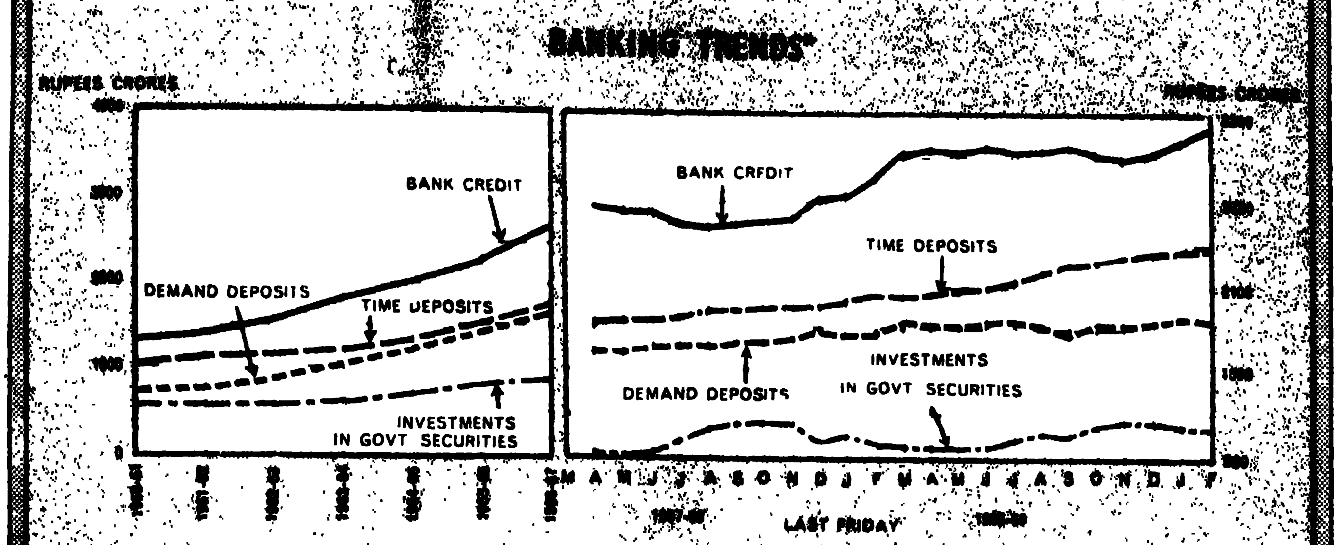
(BASE : 1952-53=100)

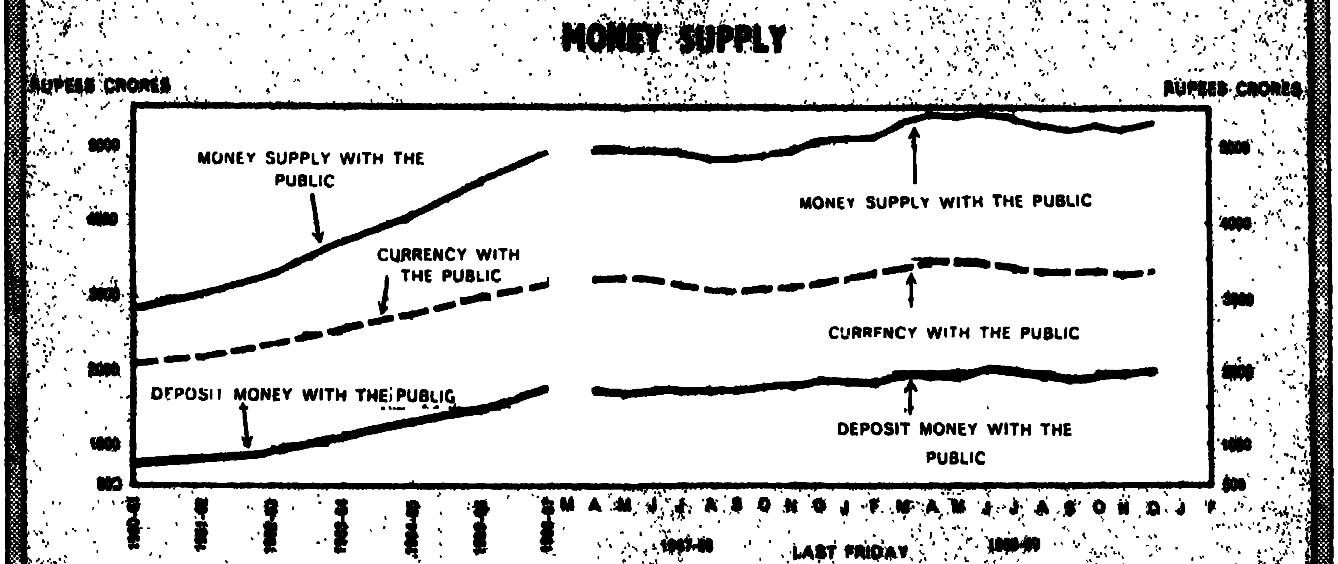


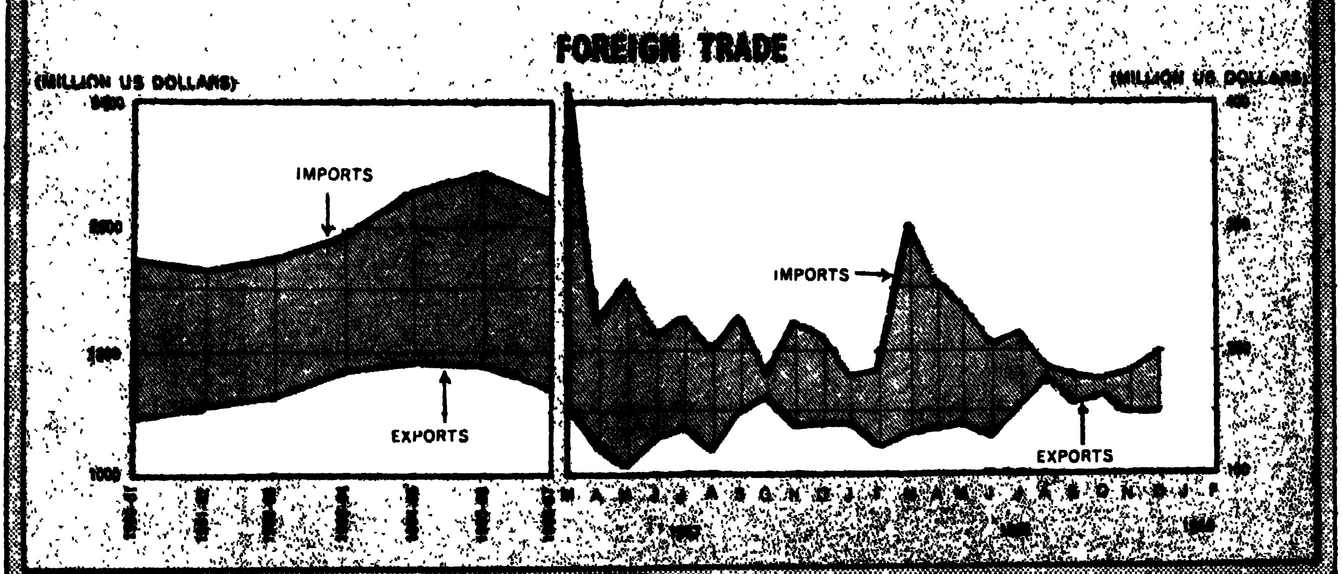
CONSUMER PRICES*



*Relates to working class







* Relates to the business of All Scheduled Commercial Banks.

jute twine and jute rope".

The narration of the above-mentioned two items is on the lines of the narration in the First Schedule to the Industries (Development and Regulation) Act, 1951, but unlike the latter which covers cotton textiles made partly of cotton, and jute textiles made partly of jute. the provision in the Bill covers cotton textiles made mainly of cotton, and jute textiles made mainly of jute.

45. The extension of the priority industry treatment to the cotton and jute textile industries is designed to provide internal resources to these two major industries for modernisation of their equipment so as to increase their productive capacity and strengthen their competitive position in world markets.

(Clause 23)

46. **Extension of the 'tax holiday' concession under the Income-tax Act to new industrial undertakings commencing production or operation, and ships brought into use by Indian companies, after March 31, 1971 at any time during the five-year period up to March 31, 1976.**—The Income-tax Act provides a 'tax holiday', for a specified period on profits derived by any tax payer from a newly set-up industrial undertaking manufacturing articles or operating a cold storage plant in India, as also profits derived by an Indian company from a ship owned and the business of an approved hotel carried on by it, subject to certain conditions. The 'tax holiday' consists in the exemption from tax of profits up to 6 per cent per annum of the capital employed in the undertaking, ship or hotel. In the case of an industrial undertaking owned by a co-operative society, the period of the 'tax holiday' is seven years, and in other case 5 years, from the year in which the undertaking commences production or operation. In the case of a ship or approved hotel, the period of the 'tax holiday' is five years from the year in which the ship is brought into use or the hotel starts functioning. Any deficiency from the six per cent per annum return on the capital during the 'tax holiday' period is allowed to be carried forward and set off against the profits of subsequent years up to a period of eight years from the initial year. Shareholders of companies are exempt from tax on dividends which are attributable to the 'tax holiday' profits of the company paying the dividend.

47. Under the present law, the 'tax holiday' concession is available in the case of industrial undertakings going into production or operation up to March 31, 1971, and ships brought into use by an Indian company up to that date. There is no such time limit in the case of approved hotels run by Indian companies.

48. Having regard to the need for further development of our industries and the expansion of our shipping, it is proposed to continue the concession of the 'tax holiday' for a further period of five years, so as to make it available to industrial undertakings commencing production or operation, as also ships brought into use by Indian companies, at any time up to March 31, 1976.

(Clause 7)

Measures for facilitating personal savings and investments

49. **Enlargement of the scope of tax relief under the Income-tax Act on personal savings through life insurance policies, etc., by covering premiums on certain policies not qualifying for tax relief at present; and providing for tax relief to authors, play-wrights, artists, musicians and actors on a wider base of savings in all cases.**—An individual effecting savings out of his income chargeable to tax through specified media such as life insurance, provident fund (including the Public Provident Fund), 10-year or 15-year cumulative time deposits in post office savings banks, etc., is entitled to tax relief under the Income-tax Act on such savings up to a specified limit. A Hindu undivided family is also entitled to tax relief on savings through life insurance up to a specified limit. In regard to savings through life insurance, the tax relief is presently available, in the case of an individual, on premiums paid on a policy of life insurance or deferred annuity on the life of the individual or on the life of his or her spouse, but not on premiums in respect of an insurance policy on the life of any child of the individual. In the case of a Hindu undivided family, tax relief is available on premiums

paid on an insurance policy on the life of any male member of the family or the wife of such male member, but not on premiums on an insurance policy on the life of any other female member of the family.

50. In the case of an individual, the overall amount of savings through life insurance and other specified media qualifying for tax relief for a year is limited, in the generality of cases, to 30 per cent of the gross total income or Rs 15,000, whichever is less. Where the individual is an author, playwright, artist, musician or actor, tax relief is admissible on savings up to such higher limits as are specified in the Income-tax Rules, subject, however, to the condition that the author, playwright, etc., has effected an insurance policy on his life or on the life of his or her spouse before March 1, 1964, and pays premiums during the relevant year to keep such policy in force. Under the Income-tax Rules, the higher limit over savings qualifying for tax relief in the case of authors, playwrights, artists, etc., is 33⅓ per cent of the professional income **plus** 30 per cent of any other income, or Rs 25,000 whichever is less.

51. In the case of a Hindu undivided family, the limit over the amount of savings through life insurance qualifying for tax relief is 30 per cent of the gross total income or Rs 30,000, whichever is less.

52. The tax relief on the savings up to the above-mentioned limits is granted in each case by allowing a deduction, in the computation of the taxable income, of 60 per cent of the first Rs 5,000, and 50 per cent of the balance, of the savings qualifying for relief.

53. It is proposed to make certain changes (as explained below) in the provisions relating to tax relief on personal savings in the Income-tax Act, with effect from April 1, 1970 (i.e., for the assessment year 1970-71 and subsequent years) in order to enlarge the area of tax relief on savings through life insurance policies; and to provide tax relief in the case of authors, playwrights, artists, etc., on the wider base in all cases, with effect from April 1, 1969 (i.e., the assessment year 1969-70 and subsequent years).

53.1 **Life Insurance Policies.**—In the case of an individual, it is proposed to extend the tax relief (from the assessment year 1970-71, onwards) also to premiums paid on an insurance policy (including a deferred annuity policy) on the life of any child of the individual. This provision will cover premiums paid on insurance policies on the lives of two or more children of the individual, and irrespective of whether the child is minor or major. In order to qualify for tax relief, premiums should be paid out of the individual's income chargeable to tax.

53.2 It is also proposed to extend the tax relief (from the assessment year 1970-71, onwards) to premiums paid by a Hindu undivided family, out of its income, on an insurance policy on the life of any female member of the family other than the wife of a member of the family. The premiums paid on an insurance policy on the life of the wife of a member of the family are already eligible for tax relief under the existing law and will continue to be so eligible.

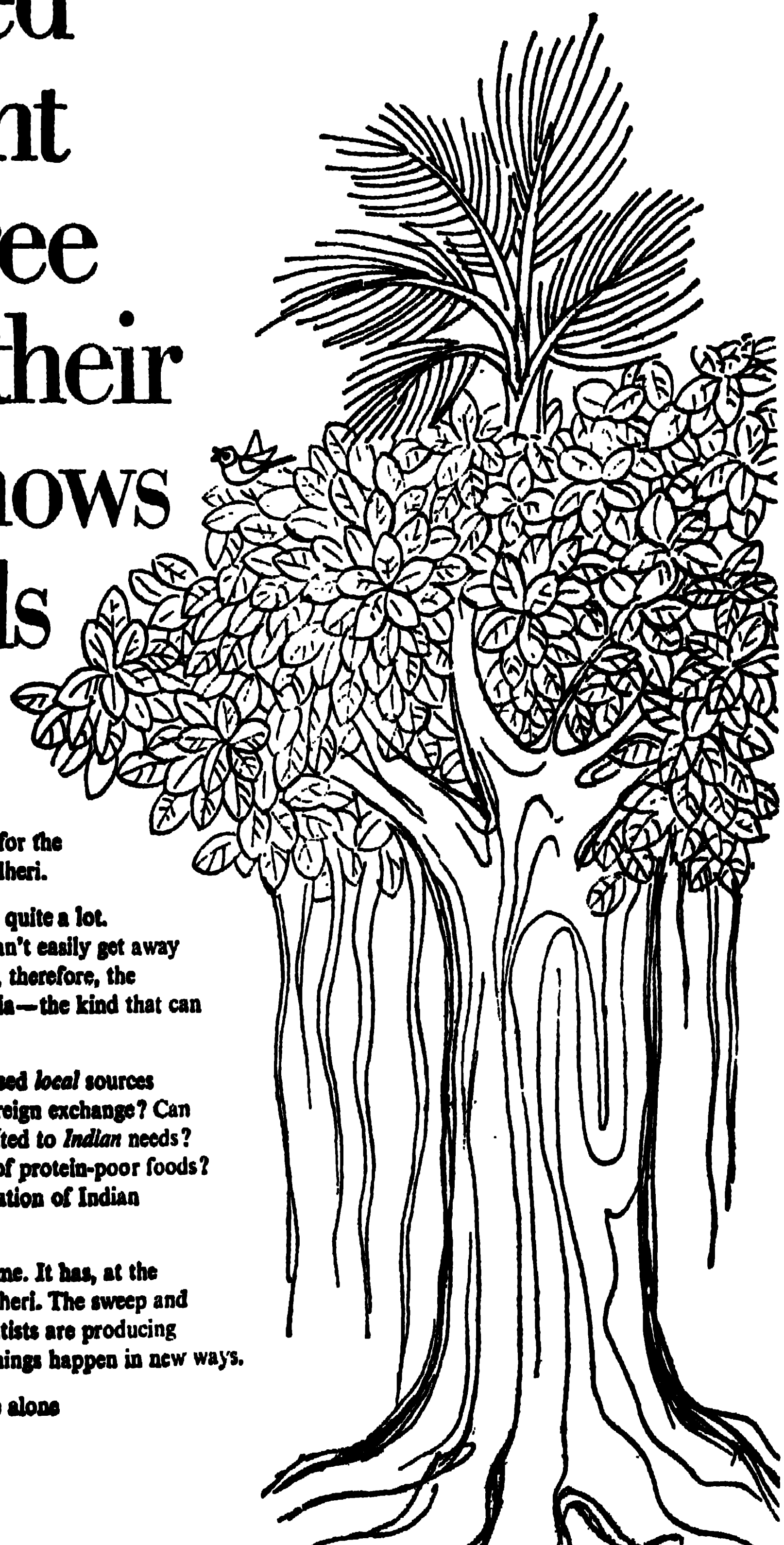
53.3 No change is proposed to be made in regard to the limits on the savings through life insurance and other specified media qualifying for tax relief in the cases of individuals and Hindu undivided families or in the quantum of the deduction available in the computation of the total income with reference to such savings.

53.4 **Authors, playwrights, artists, musicians and actors.**—In the case of such individuals it is proposed to remove the existing condition in the law that they should have a life insurance policy effected before March 1, 1964, in order to be eligible for tax relief on savings (through life insurance, etc.,) up to the higer limit specified in the Income-tax Rules. The effect of this will be that for the assessment year 1969-70 and subsequent years, authors, playwrights, artists, musicians and actors will be eligible for tax relief on their savings through life insurance, provident funds, 10-year or 15-year cumulative time deposits accounts in post offices, etc., even where they have effected a life insurance on or after March 1, 1964. This tax relief will be admissible even in cases where there is no life insurance policy but the savings have been effected through other specified media e.g., Public Provident Fund or 10-year or 15-year cumulative time deposits in post offices.

(Clause 6)

54. **Increase in the amount of dividends from Indian companies exempt from tax during the year in the case of shareholders of all categories from Rs 500 to Rs 1,000.**—Under the existing provisions of the Income-tax Act, tax payers of all categories are exempt from tax on dividends received by them from Indian companies during a year up to an amount of Rs 500. In order to encourage persons in the lower and middle income brackets to make larger investments in the shares of Indian companies and also to improve the investment climate, it is proposed to increase the amount of dividends from such companies now exempt from tax in the hands of all categories of shareholders, from Rs 500 to Rs 1,000. This

They saved the ancient banyan tree and now their daring knows no bounds



'Let it stand,' someone said of the banyan tree as the site was being cleared for the Hindustan Lever Research Centre, at Andheri.

So the tree still stands—and it stands for quite a lot. For one thing, the tree signifies that we can't easily get away from what is home-grown. Appropriately, therefore, the Centre will tackle problems rooted in India—the kind that can only be solved here:

Can we discover and exploit hitherto unused *local* sources of oil, thus cutting imports and saving foreign exchange? Can we develop milk foods that are ideally suited to *Indian* needs? How can we improve the nutritive value of protein-poor foods? Can we develop processes for the preservation of Indian type food dishes?

Research on all this can only begin at home. It has, at the Hindustan Lever Research Centre in Andheri. The sweep and thrust of the studies are daring. The scientists are producing new devices for old, making traditional things happen in new ways.

They have, of course, left the banyan tree alone to grow by itself.

Hindustan Lever

Lintas-HLL/PR. 9A-205

change is sought to be made effective from April 1, 1970 (i.e., for the assessment year 1970-71 and subsequent years).

(Clause 8)

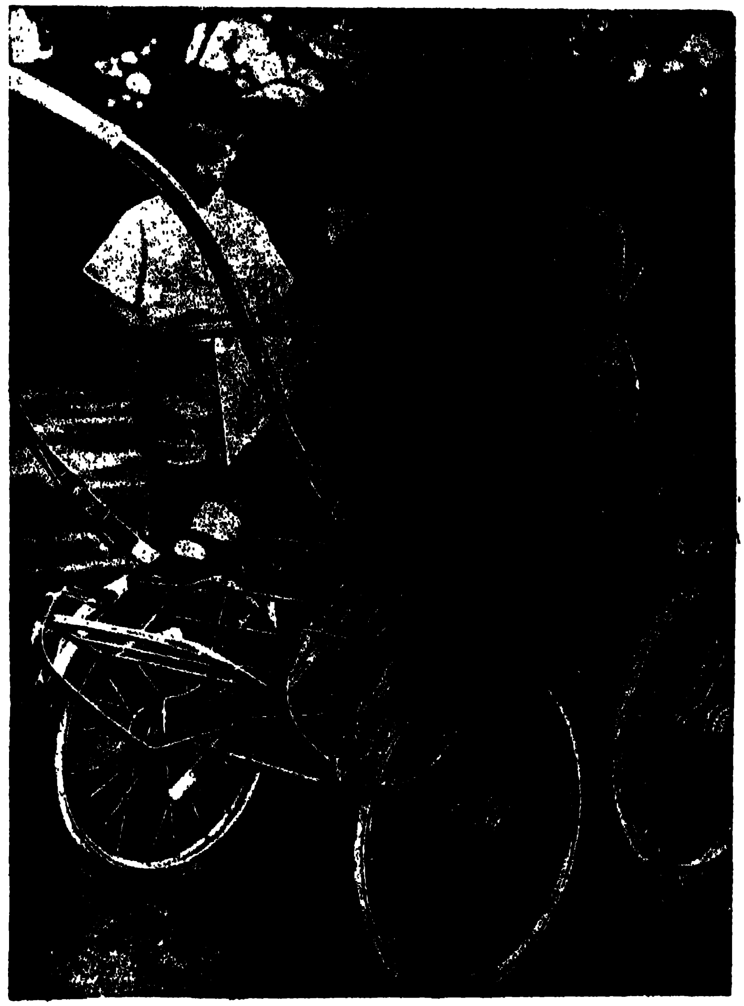
Provisions for tax reliefs in certain directions

55. **Exemption from tax of Indian companies on 40 per cent of their income by way of royalties, technical service fees, etc., received from any person carrying on a business in India in consideration of provision of technical know-how or technical services under an approved agreement.**—In the case of Indian companies who derive royalties, technical service fees, commission or any other income (except capital gains) from any person carrying on a business in India in consideration of providing technical know-how or rendering technical services to such person, it is proposed to make a provision in the Income-tax Act for the allowance of a deduction of 40 per cent of such income in the computation of their taxable income. This provision will cover technical know-how (whether patented or not) which is likely to assist in the manufacture or processing of goods or materials or the installation or erection of machinery and plant for such manufacture or processing, or in operations relating to mining including prospecting, agriculture, animal husbandry, dairy or poultry farming, forestry or fishing. The technical services covered by this provision relate to services rendered in connection with providing the technical know-how stated above. In order to be eligible for the deduction of 40 per cent of the income by way of royalties, technical service fees, etc., under the new provision, the technical know-how and the technical services should be provided under an agreement entered into by the Indian company with the person concerned on or after April 1, 1969, and such agreement should be approved by the central government at any time before October 1 of the relevant assessment year. This provision is designed to minimise the repetitive import of technical know-how from abroad and also to encourage Indian companies to develop their technical know-how.

56. The above-mentioned provision is sought to be made operative with effect from April 1, 1970, i.e., for the assessment year 1970-71 and subsequent years.

(Clause 9)

57. **Exemption from tax of authors, playwrights, artists, musicians and actors on 25 per cent of the income derived by them from foreign sources in exercise of their profession and received in India in foreign exchange.**—It is proposed to make a provision in the Income-tax Act for providing tax relief to authors, playwrights, artists, musicians and actors resident in India who derive any income from foreign sources in exercise of their profession and receive it in India or bring it into India in foreign exchange in accordance with the Foreign Exchange Regulation Act, 1947 and the Rules made thereunder. The tax relief will be granted by allowing a deduction of 25 per cent of such income in the computation



of the taxable income of the author, playwright, artist, etc. This provision is designed to encourage successful authors, playwrights, artists, musicians and actors in our country to project their activities outside India with a view to contributing to greater understanding of our country and its culture abroad and also augmenting our foreign exchange resources.

58. The above-mentioned provision is sought to be made operative from April 1, 1970 i.e., for the assessment year 1970-71 and subsequent years.

(Clause 11)

VI. Proposed amendment to the Companies (Profits) Surtax Act, 1964.

59. **Removal of the provision, in the case of a widely-held domestic company, for a ceiling on its aggregate liability to income-tax and surtax at 70 per cent of its total income.**—The Third Schedule to the Companies (Profits) Surtax Act contains a provision in the case of a widely-held domestic company under which its aggregate liability to income-tax and surtax is limited to 70 per cent of its total income. It is proposed to remove this provision for the reasons explained in paragraphs 23 and 24.

(Clause 25)

VII. Proposed amendments to the Wealth-tax Act, 1957.

60. **Extension of the levy of wealth-tax in the case of individuals and Hindu undivided families to wealth comprising agricultural property.**—Agricultural wealth has so far been exempt from wealth-tax under the Wealth-tax Act. For this purpose, the existing definition of the term "assets" in the Wealth-tax Act, which comprises property of every description, movable or immovable, specifically excludes agricultural land and growing crops, grass or standing trees on such land and also any buildings situated on or in the immediate vicinity of the land and owned and occupied or used by the cultivator or receiver of rent or revenue out of the land. This exemption has a historical origin and is not due to any bar in the Constitution on the competence of Parliament to legislate for the levy of wealth-tax on agricultural wealth.

61. With a view to bringing about equality of treatment as between persons having investments in non-agricultural property and those having investments in agricultural property, the Bill proposes to extend the levy of wealth-tax to the value of agricultural property held by individuals and Hindu undivided families, with effect from April 1, 1970, i.e., from the assessment year 1970-71.

62. Under the proposals in the Bill, agricultural land, including standing trees thereon, and also buildings situated on or in the immediate vicinity of such land and owned and occupied or used by the cultivator or receiver of rent or revenue out of the land will be brought within the purview of wealth-tax from the assessment year 1970-71 onwards. Specific exemption has been provided in respect of (a) the value of standing crops (including fruits on trees) and grass on agricultural land, and (b) the value of tools, implements and equipment (such as tractors) used for the cultivation, conservation, improvement or maintenance of agricultural land, or raising or harvesting any agricultural or horticultural produce on the land. The value of agricultural property as on the valuation date will be determined on the same basis and principles as are laid down in the Wealth-tax Act for the valuation of any other property. The value of agricultural property of individuals and Hindu undivided families will be aggregated with the value of their non-agricultural property and the aggregate net wealth will be subjected to wealth-tax at the same rates as are applicable under the Wealth-tax Act at present for the levy of wealth-tax on non-agricultural property.

63. **Increase in the scale of penalties leviable under the Wealth-tax Act for failure, without reasonable cause, to furnish the return of wealth and to produce accounts, documents, etc., called for by notice.**—At present, the penalty leviable under the Wealth-tax Act on a person who fails, without reasonable cause, to furnish the return of his net wealth or has failed to furnish it within the time allowed and in the manner required, is a sum equal to two per cent of the wealth-tax payable, for every month during which the default continued, limited, in the aggregate, to 50 per cent of the wealth-tax. The penalty imposable for failure, without reasonable cause, to furnish the accounts, documents, etc., called for by notice is a minimum of 10 per cent and a maximum of 50 per cent of the amount of wealth-tax, if any, which would have been avoided if the net wealth as returned by the tax payer had been accepted as the correct net wealth.

64. In order to provide an effective deterrent against defaults in the matter of furnishing the return of wealth and production of accounts and documents called for by notice, it is proposed to make the under-mentioned changes in the scale of penalties leviable under the Wealth-tax Act for such defaults.

64.1 **Failure, without reasonable cause, to furnish the return of wealth.**—The scale of penalty for such default is proposed to be fixed at one-half per cent of the amount of the net wealth assessed, for every month during which the default continued, subject to a maximum, in the aggregate, of an amount equal to the net wealth assessed. Where the default occurs in the course of proceedings for re-assessment of wealth which had escaped assessment at the time of an earlier assessment for the relevant year, penalty will be leviable

for every month during which the default continued at one-half per cent of the net wealth determined on re-assessment as reduced by the net wealth assessed previously. Such penalty will be subject to a maximum, in the aggregate, of an amount equal to the reassessed net wealth reduced, as stated above, by the net wealth assessed previously.

64.2 **Failure, without reasonable cause, to produce accounts and documents called for by notice.**—In respect of such defaults, the scale of penalty will be a minimum of one per cent of the 'assessed net wealth' and a maximum of amount of the 'assessed net wealth'. For this purpose, 'assessed net wealth' will be taken to be the net wealth determined on assessment as reduced by the net wealth declared in the return, if any, furnished by the tax payer. Where the case is one of re-assessment of wealth which had escaped assessment at the time of an earlier assessment, the 'assessed net wealth' for the purpose of the above-mentioned penalty provision will be taken to be the net wealth determined on re-assessment as reduced by the net wealth assessed previously or the net wealth declared in the return, if any, whichever is greater.

65. The above changes in the scale of penalties are proposed in the context of the position that the scale of penalties leviable under the Wealth-tax Act for concealment of wealth (including under-statement of the value of any assets) had been stepped up under the Finance Act, 1968 to a minimum of an amount equal to the concealed wealth and a maximum of twice that amount.

66. The above-mentioned changes in the penalty provisions in the Wealth-tax Act are sought to be made effective from April 1, 1969, and will be applicable in relation to defaults continuing or occurring on or after that date.

(Clause 24)

CUSTOMS

The proposals include:—

(a) increase in the basic import duty on lubricating oil,

(b) increase in the basic import duty on motor cars imported completely assembled;

(c) replacement of various specific rates of duty on dry fruits other than dates by an ad valorem rate and abolition of the tariff values in respect of certain dry fruits;

(d) rationalisation of the wording of Items Nos. 72(35), 72(36), 72(37) and 72(33) relating to ball and roller bearings for the purpose of simplification of customs assessment and Item No. 87A relating to baggage;

(e) creation of two new tariff items—Items Nos. 87B and 87C—carrying flat rates of duty in respect of dutiable articles (excluding alcoholic drinks) for personal use imported by post or air which have been exempted from this levy so as to maintain the status quo ante; (excluding fuel, lubricating oil, alcoholic drinks and tobacco products), for the purpose of simplification of customs assessment;

(f) continuance up to March 31, 1970, of the special duties of customs at a flat rate of 10 per cent of the duty otherwise payable, on the lines of the provision in section 35 of the Finance Act, 1968. A notification is, however, being issued exempting all imported goods from this levy so as to maintain the status quo ante;

(g) continuance up to May 15, 1970, of the enabling provision for the levy of a regulatory duty of customs similar to the provision in section 36 of the Finance Act, 1968;

(h) abolition or reduction of export duty on certain varieties of jute manufactures;

(i) abolition or reduction of export duty on package tea and other tea;

(j) reduction of duty on mica loose splittings of certain grades,

(k) abolition of export duty on degreased raw wool.

2. The changes enumerated in sub-paras (c) to (e) are being given effect to by amendment of the Indian Tariff Act and those enumerated in sub-paras (a), (b) and (h) to (k)

by amendment of notifications already in force or by the issue of fresh notifications.

3. Details of the increases or decreases in basic customs duty made through the Bill or by noticifation are given in Table I. Further, net additional revenue amounting to Rs 2600 lakhs is expected from the additional (countervailing) duties consequent on changes in central excise duties. Details of these are given in Table II.

4. The total additional customs revenue in 1969-70 as a result of the proposals in the Finance Bill and those being given effect to by notification, is estimated at Rs 920 lakhs made up as under: —

	Rs lakhs
Import duties	
Basic duties	+ 620
Additional (countervailing duties) ...	+2600
Total	+3220
Export duties	—2300
Net increase	+ 920

TABLE I

Serial No.	Item No. in the schedule to the Indian Tariff Act	Brief description of goods	Present effective rate of duty	Proposed effective rate of duty	Additional revenue expected (+) or loss likely to be incurred (—) per annum (Rs lakhs)
		Import Tariff			
1.	8(2)	Dry fruits and seedless dates	By revising the basis of valuation		+ 300
2.	27(8)	Lubricating oil	15 %	27½%	+ 260
3.	75(1)	Motor cars imported completely assembled	60 %	100%	+ 60
		Export Tariff			
4.	2	Jute manufactures:			—1175
		(i) Hessian cloth and bags excluding carpet backing and jute specialities	Rs 500 per tonne	Rs 200 per tonne	
		(ii) wool sacks	Rs 250 per tonne	Nil	
		(iii) cotton bagging	Rs 200 per tonne	Nil	
		(iv) sacking (cloth and bags) not otherwise specified	Rs 250 per tonne	Rs 150 per tonne	
		(v) certain types of yarn, twist, rope and twine and miscellaneous jute manufactures	Rs 250 per tonne	Rs 150 per tonne	
5	5	Tea:			—1055
		(i) other than in consumer packs	20% reduced by 35 paise per kg. subject to a maximum of Rs 2.65 per kg.	15% reduced by 55 paise per kg. subject to a maximum of Rs 1.70 per kg.	
		(ii) in consumer packs, packed in metal container.	10% or Rs 2.76 per kg. whichever is less.	Nil	
		(iii) in consumer packs, packed in other than metal container	15% or Rs 2.76 per kg. whichever is less	5% subject to a maximum of Rs 1.70 per kg.	
6.	12	Degreased raw wool	10%	Nil	— 30
7.	25	Mica loose splitting of grades nos. 5½ and 6	40%	20%	— 40
					—1680

TABLE II

DETAILS OF SUBSTANTIAL INCREASE OR DECREASE IN REVENUE ON ACCOUNT OF ADDITIONAL (COUNTERVAILING) DUTIES OF CUSTOMS

Serial No.	Item(s) in the Customs Tariff Schedule	Brief description of the goods	Additional revenue expected (+) or loss likely to be incurred (—) per annum (Rs lakhs)
1.	27(4)	Kerosene	+ 75
2.	27(6)	Motor spirit	+ 45
3.	28, 28(8), 35 and 35(1)	Manure	+2500
4.	46(6)	Synthetic fibre	+ 100
5.	47(2)	Synthetic yarn	— 120
			+2600

CENTRAL EXCISE
A—CHANGES PROPOSED BY BILL

Tariff Item No.		Description	Unit	Rates of duty: Existing Basic Rs.	Existing Addl. in lieu of sales tax Rs.	Proposed Basic Rs.	Proposed Addl. in lieu of sales tax Rs.	Estimated additional revenue during one full year (Rs lakhs)
1		Sugar						
	(1)	Sugar other than khandsari or palmyra	Quintal	30.50	6.50	19% ad. val.	4% ad. val.	2745
	(2)	Khandsari sugar	Quintal	15.00	6.50	10% ad. val	4% ad. val	30
		Effective rates						
	(1)	Sugar other than khandsari or palmyra	Quintal	22.15	6.50	19% ad. val.	4% ad.. val	
	(2)	Khandsari sugar						
	(a)	produced with the aid of sulphitation plant	Quintal	15.00	6.50	10% ad. val.	2.5% ad. val.	.
	(b)	produced without the aid of sulphitation plant	Quintal	15.00	2.50	10% ad. val.	2.5% ad. val.	.

Note: Compounded levy rates for khandsari sugar produced by units opting to work under special procedure are being suitably increased.

It is a revenue measure which seeks to levy proportionately higher duty on the higher value of sugar sold in the free market with only a marginal variation in the duty charged on controlled sugar.

2. By suitable exemption notification it is being ensured that the duty on controlled sugar is charged at the ad valorem rates on prices fixed by the central government.

Clauses 30(i) and 33(i)

Tariff Item No.	Commodity	Unit	Rate of duty (Basic): Existing	Rate of duty (Basic): Proposed	Estimated additional Revenue in one full year (Rs lakhs)
1A	Confectionery and chocolates				
	The tariff description of sub-item (2) of this item is proposed to be amended with a view to include chocolate in bulk which is not covered in the tariff description at present				Clause 30(ii)
1B	Prepared or preserved foods			10.0% ad valorem	150
	This new levy has been proposed as a revenue measure. The levy at present will be confined to groups of ten items of preserved and processed foods listed in a notification which exempts all the others.				Clause No. 30(iii)
4II(2)	Cigarettes				1584
	Basic		100% ad valorem	125% ad valorem	
	Additional in lieu of sales-tax		25% ad valorem	25% ad valorem	
	Special		20% of basic duty	20% of basic duty	

Tariff Item No.	Commodity	Unit	Rate of duty (Basic) Existing Rs.	Rate of duty (Basic) Proposed Rs.	Estimated additional revenue in one full year (Rs lakhs)

Effective rates

Value for 1000 Exceeds Rs.	Value for 1000 Does not exceed Rs.	Existing Ad valorem B %	Existing Ad valorem S %	Existing Ad valorem A %	Proposed Ad valorem B %	Proposed Ad valorem S %	Proposed Ad valorem A %
25.00	—	95.00	19.0	20.0	107.5	21.5	23.0
7.50	25.00	65.00	13.0	11.0	72.5	14.5	14.0
—	7.50	35.0	7.0	5.0	40.0	8.0	5.0

B—Basic excise duty
S—Special excise duty
A—Additional excise duty in lieu of sales-tax.

It is a revenue measure.

Clause 30(iv)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
6	Motor spirit	Kl.	Rs. 550.0	Rs. 620.0	1400

Clause 30(v)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
14HH	Fertilisers, all sorts, etc.	—	—	10.0% ad valorem	2200

This new levy has been proposed as a revenue measure.

Clause 30(x)

Tariff Item No.	Commodity	Remarks	Estimated additional revenue
18A	Cotton yarn	No change in the present ceiling rates of duty. For effective rates of duty see entries in the table against "I-Cotton Yarn"	(—)260
19	Cotton fabrics	Tariff description is being recast to include the following	(—)20*

(a) Embroidery and textile fabrics impregnated, etc. having cotton fabric as the base fabric.

(b) Ad valorem rates of duty at 12.5 per cent basic excise and 2.5 per cent additional excise in lieu of sales-tax have been fixed for nine specified types of cotton fabrics, such as coating, suiting, tussors, corduroy, gaberdine, tapestry, etc. These are being exempted from paying cotton yarn duty.

*Break up details of this figure are as shown below:

i) Due to change in fabric duty	(—)	370
ii) Due to increase in powerloom compounded duty	(+)	50
iii) Due to transfer of revenue from		
(1) Embroidery (Item 22C deleted)	(+)	70
(2) Fabrics impregnated or coated, etc. (Item 22B modified	(+)	230
Net	(—)	20

The proposals in respect of cotton yarn and cotton fabrics include, among others, the following important changes—

i) relief in duty on 'hank' yarn normally used by handlooms;

ii) differential between 'sized' and 'unsized' yarn for the purpose of assessment of duty is removed;

iii) relief in basic excise duty on 'Grey' and 'Processed' medium-A, medium-B and coarse fabrics;

iv) levy of a surcharge on printed fabrics of all categories;

v) controlled varieties of medium-B and coarse fabrics continue to be exempted completely from basic excise duty;

vi) lower rates of processing surcharges have been fixed for powerloom and handloom fabrics if processed by Independent Processors vis-a-vis the rates of processing surcharges fixed for mill-made fabrics.

The changes in the pattern and rates of duty on cotton yarn and cotton fabrics are proposed as a measure of substantial relief. While the relief to the handloom and powerloom sectors will be mainly through an overall reduction in yarn duty, the relief to the mill sector will be mainly by abolition or/and reduction of both grey stage and processing duty on medium-A, medium-B and coarse fabrics. The handloom and powerloom sectors will also benefit by reduction/abolition of processing duty in respect of such fabrics made in these sectors as are processed.

For effective rates of duty, see entries in the table against "II-Cotton fabrics".

Tariff Item No.	Commodity	Unit	Rate of duty Existing In hank Unsized Rs.	Existing In hank Sized Rs.	Existing Others Unsized Rs.	Existing Others Sized Rs.	Proposed In hank Rs.	Proposed Others Rs.	Estimated additional Revenue in one full year (Rs lakhs)
	Effective rate of duty								
	1 Cotton Yarn								
	a) effective rates of duty of yarn used by sectors other than composite mills.								
	of or more — less than (N.F. Counts)								
	69 — -	Kg.	0.90	1.08	1.10	3.50	0.90	1.50	
	51 — 69	,,	0.90	1.08	1.10	3.50	0.65	1.25	
	40 — 51	,,	0.65	0.78	1.10	3.50	0.40	1.10	
	34 — 40	,,	0.40	0.48	0.70	1.45	—	0.80	
	29 — 34	,,	—	—	0.70	1.45	—	0.70	
	22 — 29	,,	—	—	0.40	0.44	—	0.40	
	14 — 22	,,	—	—	0.25	0.28	—	0.25	
	Less than — 14	,,	—	—	0.13	0.15	—	0.13	

b) Rates of compounded duty for yarn contained in composite mill fabrics

		Unit	Existing Paise	Proposed Paise
1)	Superfine	Sq. metre	22.0	20.0
2)	Fine	,,	14.0	12.0
3)	Medium-A	,,	6.60	6.60
4)	Medium-B	,,	4.40	4.40
5)	Coarse -	,,	2.20	2.20

Note: Duty on yarn used in the base fabrics of embroidery base fabrics impregnated or coated with artificial plastic materials will be the duty leviable on yarn contained in the base fabrics. Cotton fabrics to be assessed to duty at ad valorem rates under Item No. 19, are being exempted from cotton yarn duty.

c) Rates of duty on yarn contained in 'fents'

	Unit	Rs.	Rs.
i) of superfine fabrics	kg.	1.20	2.00
ii) of fine fabrics	,,	0.90	0.80
iii) of Medium-A fabrics	,,	0.44	0.45
iv) of Medium-B fabrics	,,	0.44	0.30
v) of coarse fabrics	,,	0.165	0.15

Note: For yarn contained in the fents of embroidery or fents of fabrics impregnated or coated with artificial plastic materials, the duty chargeable will be the duty leviable on the base fabrics.

Tariff Item No.	Commodity and description	Unit	Rate of duty (Basic) Pre-budget Paise	Post budget Paise	Estimated additional revenue in one full year
	II—Cotton fabrics (Mill-made)				
	a) Superfine—				
	i) Grey (unprocessed)	Sq. Mt.	7.0	7.0	
	ii) Bleached/dyed	,,	22.0	22.0	
	iii) Bleached or dyed and printed thereon	Sq. Mt.	22.0	27.0	
	iv) Mercerised, etc.	,,	42.0	42.0	
	v) Mercerised etc. and printed thereon	,,	42.0	47.0	
	vi) Shrink-proofed etc.	,,	57.0	57.0	
	vii) Shrink-proofed, etc. and printed thereon	,,	57.0	62.0	
	b) Fine—				
	i) Grey (unprocessed)	Sq. Mt.	6.0	6.0	
	ii) Bleached/dyed	,,	21.0	21.0	
	iii) Bleached or dyed and printed thereon	,,	21.0	26.0	
	iv) Mercerised, etc.	,,	41.0	41.0	

Tariff Item No.	Commodity	Unit	Rate of duty: Existing	Rate of duty: Proposed	Estimated additional revenue in one full year

i) Compounded rates of duty for fabrics produced by powerlooms

where powerlooms installed are more than	not more than	Existing: Per quarter	Existing: Per year	Proposed: Per quarter	Proposed: per year
		(Rs per powerloom installed)			
	4	6.50	25.00	13.00	50.00
4	24	20.00	75.00	40.00	150.00
24	49	40.00	150.00	80.00	300.00

Clauses 30(xii) and 33(ii)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
			Rs	Rs	(Rs lakhs)
20	Silk fabrics				
21	Woollen fabrics				

The amendment of the tariff description of these items is consequential to the deletion of separate item No. 22C relating to Embroidery and has little revenue significance.

Clauses 30(xiii) and (xiv) and 33(iii) and (iv)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
22	Rayon or Artificial silk fabrics				55

The amendment of the tariff description of this item is consequential to the delegation of Item No. 22C relating to Embroidery and amendment of Item No. 22B relating to Textile fabrics impregnated, etc.

Clauses 30(xv) and 33(v)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
22A	Jute manufactures				495
	i) Hessians	Tonne	450.00	550.00	
	ii) Others	Tonne	250.00	350.00	

1) The existing special excise duty of 10 per cent of basic duty continues.
2) The increase has been proposed as a revenue measure.

Clause 30 (xvi)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
22B	Textile fabrics impregnated or coated with preparations of cellulose derivatives or of other artificial plastic materials not elsewhere specified				(—)245

Tariff description of this item is proposed to be amended to exclude impregnated fabrics etc. having cotton fabrics/ artificial silk fabrics as the base material.

What is shown as loss in revenue against this item will be offset by gain shown under Cotton fabrics and Artificial silk fabrics.

Clause 30(xvii)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
22C	Embroidery, etc.				(—)175

This item is being deleted from the Central Excise Tariff; but necessary inclusion of embroidered fabrics has been made in the tariff description of Items 19, 20, 21 and 22 relating to cotton fabrics, silk fabrics, woollen fabrics and artificial silk fabrics respectively

2. Relief is proposed to be granted to embroidered fabrics by reduction of the basic duty as well as the compounded levy of which the revenue effect will be a loss of Rs 65 lakhs. The remaining loss of Rs 110 lakhs shown against this item will be offset by gain shown in revenue against the items of cotton fabrics and artificial silk fabrics.

Clause 30(xviii)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
26A	Copper and copper alloys				
27	Aluminium				

The amendment of tariff description is of a clarificatory nature and has little revenue significance.

Clause 30(xx) and (xxi)

Tariff Item No.	Commodity	Unit	Existing	Proposed	Estimated additional revenue
30A	Power driven pumps for liquids, etc.			20.0% ad valorem	200

This new levy has been proposed as a revenue measure.

Clause 30 (xxii)

33C	Domestic electrical appliances, not elsewhere specified	10.0% ad valorem	200

This new levy has been proposed as a revenue measure. By an exemption notification, the levy has been confined at present to groups of twenty items of domestic electrical appliances.

Clause 30 (xxv)

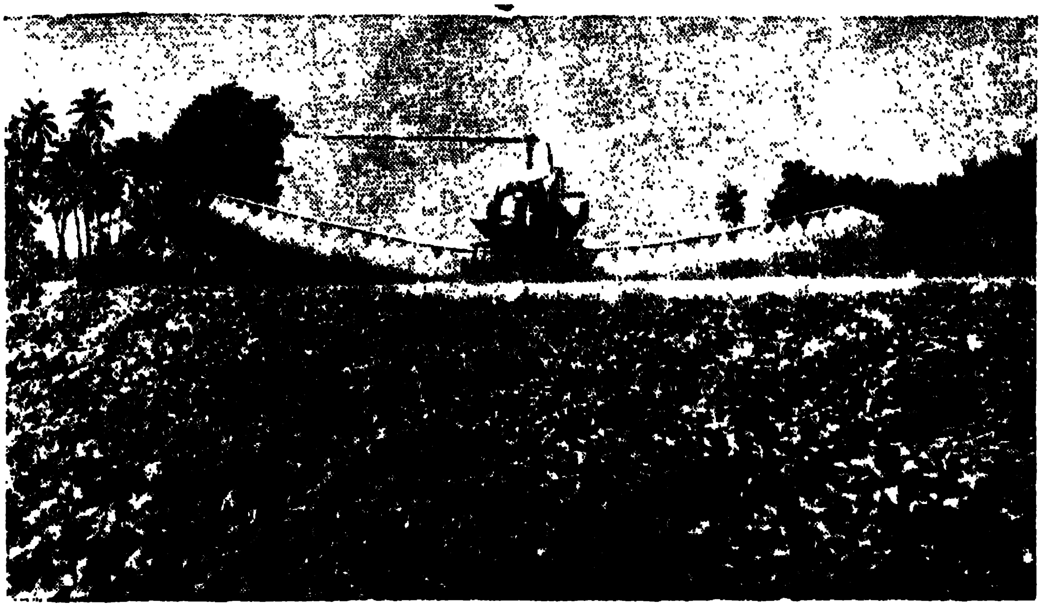
			Existing: Width 30mm or higher	Existing: Below 30mm in width	Proposed: Width 30 mm or higher	Proposed: Below 30mm in width	
37	Cinematograph films						
	I—Unexposed	Metre			2 paise		(+) 10
	II—Exposed						(—) 18
			(In Rs per metre)				
	i) Newsreels and shorts not exceeding 500 metres		0.15	0.10	0.50	0.30	
	ii) Feature films, advertisement shorts and films not otherwise specified		0.50	0.33	1.50	1.00	

EFFECTIVE RATES OF DUTY ON FEATURE FILMS ETC., FALLING UNDER SUB-ITEM II (2)

Description	Existing rates: For films which are below 30 mm in width	Existing rates: For films which are of a width of 30mm or higher: Not exceeding 4000 metres in length	Existing rates: For films which are of a width of 30mm or higher: Exceeding 4000 metres in length	Proposed rates: For films which are below 30mm in width	Proposed rates: For films which are of a width of 30mm or higher: Not exceeding 4000 metres in length	Proposed rates: For films which are of a width of 30mm or higher: Exceeding 4000 metres in length
	(In paise per metre)					
A) Cleared for home consumption within 12 months immediately following the month of certification by the Central Board of Film Censors						
I) For black and white films						
i) First eight prints of each picture	7	10	15			
ii) next 12 prints				Nil	Nil	
a) first 4 prints	10	15	25			
b) balance 8 prints	10	15	25	7	10	15
iii) next 15 prints	13	20	35	12	18	27
iv) next 15 prints	25	35	50	22	32	48
v) of the remaining						
a) first 25 prints	33	45	50	33	45	55
b) balance	33	45	50	45	60	70
II) For colour films						
i) first eight prints of each picture	7	10	15	5	7.5	10
ii) next 12 prints	10	15	25	10	15	20
iii) next 15 prints	13	20	35	18	27	36
iv) next 15 prints	25	35	50	33	48	64
v) of the remaining						
a) first 25 prints	33	45	50	50	67	90
b) balance	33	45	50	67	90	120
B) Cleared for home consumption after 12 months immediately following the month of certification by the Central Board of Film Censors						
a) For black and white films	10	15	25	Nil	Nil	Nil
b) For colour films	10	15	25	10	15	25

The existing special excise duty of 20% of the basic duty continues.

Clause 30(xxvi)



Tariff Item No.	Commodity	Unit	Rate of duty		Estimated additional revenue in one full year
			Existing	Proposed	
37A	Gramophones and parts thereof				

The amendment of tariff description is of a clarificatory nature and has little revenue significance.

Clause 30 (xxvii)

42	Pilfer proof caps for packaging	each		One paisa	50
43	Wool tops	Kg.		Five rupees (Effective rate ten paise per Kg.)	6

The new levy on pilfer proof caps for packaging has been proposed as a revenue measure.

The new levy on wool tops has been proposed with a view to transferring part or whole of the duty on woollen yarn to the wool top stage by notification. This will ensure better revenue collection.

Clause 30 (xxviii)

Proposals for changing specific rated levies to ad valorem levies.

13	Vegetable product	Quintal	Rs 32.00 (effective rate Rs 20.00)	10.0% ad valorem (effective rate 5.0% ad valorem)	
14A	Soda Ash	Quintal	Rs 2.00	5.0% ad valorem	
14B	Caustic Soda	Quintal	Rs 4.00	5.0% ad valorem	
14BB	Sodium Silicate	Quintal	Rs 8.00 (effective rate Rs 6.00)	25.0% ad valorem	
15	Soap				
	a) produced with the aid of power				
	i) household & laundry	Quintal	Rs 18.00	6.5% ad valorem	
	ii) Other sorts	Quintal	Rs 38.00	9.5% ad valorem	
	b) produced without the aid of power				
	i) plain bars and not less than 454 grams in weight	Quintal	Rs 13.25 (exempted)	6.5% ad valorem (exempted)	
	ii) Other sorts	Quintal	Rs 15.50 (exempted)		
23	Cement	Metric tonne	Rs 23.60	21.0% ad valorem	
32	Electric lighting bulbs and fluorescent lighting tubes.				260
	(1) Vacuum & gas filled bulbs				
	i) not exceeding 100 watts. etc.	each	10 paise		
	ii) exceeding 100 watts but not exceeding 300 watts etc.	each	40 paise		
				11.0% ad valorem	
	iii) exceeding 300 watts	each	80 paise		
	(2) Fluorescent tubes	Metre	Rs 1.31	22.0% ad valorem	
	(3) Sodium & mercury vapour discharge lamps		5% ad valorem	6% ad valorem	
	(4) All sorts, N.O.S.		15% ad valorem	16.0% ad valorem	
33	Electric fans				
	a) Table, cabin, carriage, etc. fans not exceeding 40.6 cm	each	Rs 7.50	6.0% ad valorem	
	b) All other fans	each	Rs 15.00	8.5% ad valorem	

(Sub-item (3) of Item No. 33 relating to certain parts of electric fans has been deleted.)

The existing special excise duty as percentage of basic excise duty, wherever applicable, continues unchanged.

2. The proposals seek to change the existing specific rates of duty to ad valorem rates of duty, suitably rounded.

Clause 30 (vi), (vii), (viii), (ix), (xi), (xix), (xxiii), and (xxiv)

B—Special excise duty, additional excise (in lieu of sales-tax) duty, regulatory duty and discontinuance of salt duty. Except where already indicated otherwise, there is no change in the existing effective rates of special excise duty and additional excise (in lieu of sales-tax) duty.

2. The enabling provision for levy of a regulatory duty of excise as in the past year is being continued. However, the regulatory duty is not being imposed on any commodity for the present.

3. Provision for the discontinuance of salt duty is proposed to be continued during the financial year 1969-70 also.

Clause 31, 32, 33 and 34

C. CHANGES PROPOSED BY NOTIFICATION

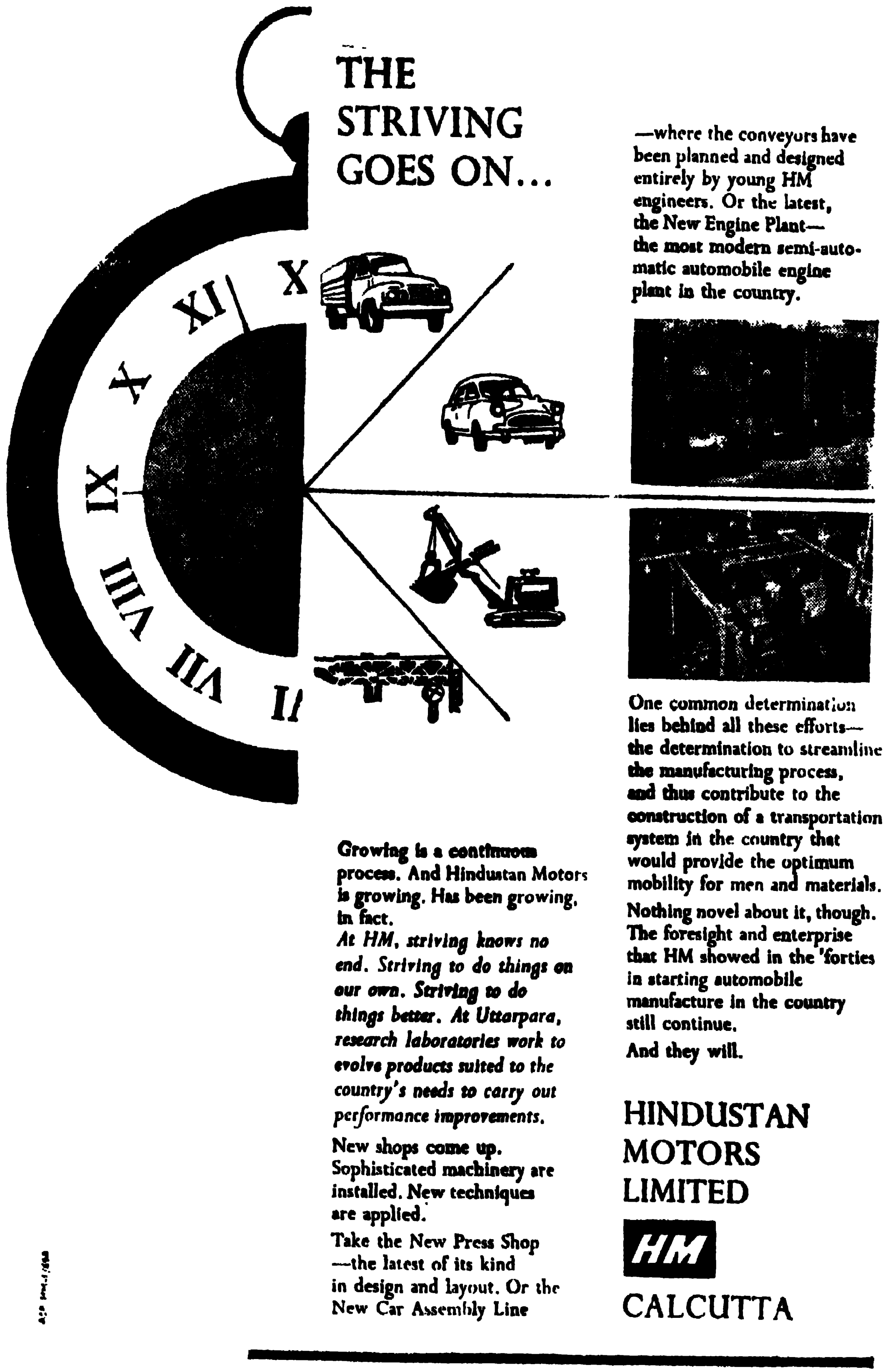
Tariff Item No.	Commodity	Unit	Rate of duty (Basic) Existing Rs	Proposed Rs	Estimated addl. revenue in one full year (Rs lakhs)
1A	Confectionery	Kg.	0.60	0.30	(—) 80
	It is a measure to reduce the incidence of duty on confectionery other than chocolates.				
7	Kerosene	Kl.	235.00	235.00	1440
	Effective rate of duty				
	Superior kerosene	Kl.	165.25	205.25	
	It is a revenue measure. No change is proposed in the duty on inferior kerosene which is used mostly as an illuminant in rural areas.				
16A	Rubber products				60
	Rationalisation of the duty on rubber products, mainly on transmission belting, by redefining the extent of rubber compound content which will attract the levy under this item.				

Tariff Item No.	Commodity	Unit	Rate of duty Existing Basic Rs	Existing Special Rs	Existing Total Rs	Proposed Basic Rs	Proposed Special Rs	Proposed Total Rs	Estimated revenue in one full year (Rs lakhs)
18	Rayon and synthetic fibres and yarn	Kg.	45.00	15.0	60.0	45.0	15.0	60.0	547
	Effective rates of duty								
	I) Staple fibre								
	(a) Of cellulosic origin	Kg.	0.60	0.20	0.80	0.75	0.25	1.00	
	(b) all others	Kg.	12.00	4.00	16.00	21.00	7.00	28.00	
	II) Filament yarn								
	1. Viscose and acetate—								
	(a) For big producers of and above / below								
	i) — / 75 d	Kg.	8.10	2.25	10.35	8.60	2.80	11.40	
	ii) 75 d / 100 d	Kg.	5.20	1.50	6.70	5.65	1.75	7.40	
	iii) 100 d / 120 d	Kg.	3.75	1.00	4.75	4.10	1.15	5.25	
	iv) 120 d / 150 d	Kg.	3.00	0.95	3.95	3.35	1.00	4.35	
	v) 150 d / 350 d	Kg.	2.60	0.80	3.40	2.85	0.90	3.75	
	vi) 350 d / Not above 1100 d	Kg.	2.50	—	2.50	2.50	—	2.50	
	vii) above 1100 d	Kg.	2.00	—	2.00	2.00	..	2.00	
	(b) For small producers of and above / below								
	i) — / 75 d	Kg.	6.20	2.00	8.20	7.85	2.50	10.35	
	ii) 75 d / 100 d	Kg.	5.00	1.50	6.50	5.55	1.75	7.30	
	iii) 100 d / 120 d	Kg.	3.75	1.00	4.75	4.10	1.15	5.25	
	iv) 120 d / 150 d	Kg.	2.10	0.65	2.75	2.85	0.90	3.75	
	v) 150 d / 350 d	Kg.	2.00	0.60	2.60	2.55	0.80	3.35	
	vi) 350 d / Not above 1100 d	Kg.	2.50	—	2.50	2.50	—	2.50	
	vii) above 1100 d	Kg.	2.00	—	2.00	2.00	—	2.00	
	2. Other synthetic yarns								
	(a) Polyamide (nylon) yarn of and above / below								
	i) — / 30 d	Kg.	28.50	9.50	38.00	22.50	7.50	30.00	
	ii) 30 d / 75 d	Kg.	24.75	8.25	33.00	21.00	7.00	28.00	
	iii) 75 d / 90 d	Kg.	15.00	5.00	20.00	18.00	6.00	24.00	
	iv) 90 d / 100 d	Kg.	15.00	5.00	20.00	15.00	5.00	20.00	
	v) 100 d / 150 d	Kg.	12.00	4.00	16.00	15.00	5.00	20.00	
	vi) 150 d / Not above 750 d	Kg.	12.0	4.00	16.00	6.00	2.00	8.00	
	vii) above 750 d	Kg.	3.00	1.00	4.00	3.00	1.00	4.00	

Note: Manufacturers whose clearances of cellulosic fibre and cellulosic yarn (viscose yarn and acetate yarn) taken together in 1966-67.

(a) exceeded 36.5 lakh kg are treated as big producers

(b) did not exceed 36.5 lakh kgs are treated as small producers


THE STRIVING GOES ON...
XI
X
IX
VIII
VII
II
Growing is a continuous process. And Hindustan Motors is growing. Has been growing, in fact.
At HM, striving knows no end. Striving to do things on our own. Striving to do things better. At Uttarpara, research laboratories work to evolve products suited to the country's needs to carry out performance improvements.
New shops come up. Sophisticated machinery are installed. New techniques are applied.
Take the New Press Shop —the latest of its kind in design and layout. Or the New Car Assembly Line
—where the conveyors have been planned and designed entirely by young HM engineers. Or the latest, the New Engine Plant— the most modern semi-automatic automobile engine plant in the country.
One common determination lies behind all these efforts— the determination to streamline the manufacturing process, and thus contribute to the construction of a transportation system in the country that would provide the optimum mobility for men and materials.
Nothing novel about it, though. The foresight and enterprise that HM showed in the 'forties in starting automobile manufacture in the country still continue.
And they will.
HINDUSTAN MOTORS LIMITED
HM
CALCUTTA

Tariff Item No.	Commodity		Unit	Rate of duty Existing Basic	Existing Special	Existing Total	Proposed Basic	Proposed Special	Proposed Total	Estimated revenue in one full year
				Rs	Rs	Rs	Rs	Rs	Rs	(Rs lakhs)
	(b) Other than polyamide (nylon) yarn									
	of and above	below								
i)	—	30 d	Kg.	28.50	9.50	38.00				
ii)	30 d	75 d	Kg.	24.75	8.25	33.00				
iii)	75 d	100 d	Kg.	15.00	5.00	20.00				
iv)	100 d	Not above 750 d	Kg.	12.00	4.00	16.00	No change			
v)	above 750 d		Kg.	3.00	1.00	4.00				

The proposals seek to

(i) raise duty on cellulosic and non-cellulosic (terene) fibre,

(ii) raise duty on viscose and acetate filament yarn; and

(iii) reduce duty on nylon yarn.

There is no change in the present concessional rates of duty on cellulosic and non-cellulosic yarns of deniers used in the manufacture of tyre-cords and fishing nets.

Tariff Item No.	Commodity	Unit	Rate of duty Existing	Proposed	Estimated additional revenue in one full year (Rs lakhs)
23A	Glass and Glassware				(—) 17
	Duty on glass shells going into the manufacture of electric lighting bulbs and fluorescent lighting tubes is proposed to be exempted and the duty thus given up has been taken into account in the proposal to fix ad valorem rates on electric lighting bulbs and fluorescent lighting tubes, vide Clause 30(xxiii).				
26	Steel Ingots				(—) 100
26AA	Iron or Steel Products				
	The proposal is to exempt steel ingots and products manufactured out of scrap to the extent of the ingot duty of Rs 75 per tonne as a measure of relief to the owners of electric arc furnaces who use mostly bazar scrap on which duty has been paid at some stage or other.				

Tariff Item No.	Commodity		Unit	Rate of duty Existing Basic	Existing Special	Proposed Basic	Proposed Special	Estimated additional revenue in one year (Rs lakhs)
33A	Wireless receiving sets			20% ad valorem	33⅓% of basic duty	20% ad valorem	33⅓% of basic duty	60
	Effective rates of duty							
	Wireless receiving sets whose price at the point of sale to the consumer							
	Exceeds Rs.	Does not exceed Rs.		Rs per set		Rs per set		
i)		165.00						
	a) manufactured by an industrial undertaking to which the Industries (Development and Regulation) Act, 1951 (65 of 1951) applies			Nil	Nil	7.50	2.50	
	b) others			Nil	Nil	Nil	Nil	
ii)	165.00	225.00		15.00	33⅓% of basic duty	No change in the present rates of duty		
iii)	225.00	300.00		21.00				
iv)	300.00	375.00		30.00				
v)	375.00	475.00		50.00				
vi)	475.00	575.00		70.00				
vii)	575.00	675.00		90.00				
viii)	675.00	and above		100.00				

It is a revenue measure. Wireless receiving sets whose price at the point of sale to the consumer does not exceed Rs 165/- each and produced by small manufacturers will continue to be exempted.

Tariff Item No	Commodity	Unit	Rate of duty Existing Rs	Rate of duty Proposed Rs	Estimated additional revenue in one full year (Rs lakhs)
33AA	Certain parts of wireless receiving sets	Each	5.00	5.00	(—)120
	Effective rates of duty				
	i) Electronic valves and tubes	Each	3.00	1.50	
	ii) Transistors and semi conductor diodes	Each	1 00	·0.50	

These parts of wireless receiving sets if used in the manufacture of electronic equipments other than wireless receiving sets will continue to be exempted.

ABSTRACT—CENTRAL EXCISES

(Rs in lakhs)

Tariff Item No	Commodity	Estimated additional revenue in one full year: Basic excise duty		Special excise duty		Additional excise duty in lieu of sales tax		Total	
		(+)	(−)	(+)	(−)	(+)	(−)	(+)	(−)
	I. Existing Items								
1(1)	Vacuum pan sugar	2630	—	—	—	115	—	2745	—
1(2)	Khandsari Sugar	30	—	—	—	—	—	30	—
1A	Confectionery	—	80	—	—	—	—	—	80
4II(2)	Cigarettes	1005	—	201	—	378	—	1584	—
6	Motor Spirit	1400	—	—	—	—	—	1400	—
7	Superior Kerosene	1440	—	—	—	—	—	1440	—
16A	Rubber Products	50	—	10	—	—	—	60	—
18	Rayon and Synthetic fibres and yarn	410	—	137	—	—	—	547	—
18A	Cotton Yarn	—	260	—	—	—	—	—	260
19	Cotton fabrics	—	110	—	—	90	—	—	20
22	Artificial Silk fabrics	55	—	—	—	—	—	55	—
22A	Jute manufactures	450	—	45	—	—	—	495	—
22B	Textile fabrics impregnated etc	—	245	—	—	—	—	—	245
22C	Embroidery	—	175	—	—	—	—	—	175
23A	Glass and glassware	—	17	—	—	—	—	—	17
26AA	Iron or steel products	—	100	—	—	—	—	—	100
33A	Wireless Receiving Sets	45	—	15	—	—	—	60	—
33AA	Parts of Wireless Receiving Sets	—	120	—	—	—	—	—	120
37	Cinematograph films exposed	—	15	—	3	—	—	—	18
	II. Proposals for changing specific rated levies to ad valorem rated levies								
13	Vegetable Product)(								
14A	Soda Ash)(								
14B	Caustic Soda)(								
14BB	Sodium Silicate)(	229	—	31	—	—	—	260	—
15	Soap)(								
23	Cement)(								
32	Electric bulbs and tubes)(								
33	Electric fans)(								
	III. New Items:								
1B	Prepared or preserved foods	150	—	—	—	—	—	150	—
14HH	Fertilisers	2200	—	—	—	—	—	2200	—
30A	Power driven Pumps	200	—	—	—	—	—	200	—
33C	Domestic Electrical Appliances	200	—	—	—	—	—	200	—
370 I	Cinematograph films unexposed	10	—	—	—	—	—	10	—
42	Pilfer proof caps	50	—	—	—	—	—	50	—
43	Wool Tops	6	—	—	—	—	—	6	—
	Total of I, II and III	10560	1122	439	3	583	—	11492	1035
		(+)9438		=(+)436		=(+)583		=(+)10457	

SUMMARY

	States' share	Centre's share	Total
	(Rs in lakhs)		
a) Basic excise duty	1879	7559	9438
b) Special excise duty	—	436	436
c) Additional excise duty in lieu of sales tax ...	583	—	583
Total: ...	2462	7995	10457

ANNEXURE—A

STATEMENT SHOWING IN SELECTED CASES TAX PAYABLE AND AS A PERCENTAGE OF TOTAL INCOME, ON TOTAL INCOMES RANGING FROM RS 4,000 TO RS 10,00,000

Income	Unmarried individual		Married individual		Married individual having one dependent child		Married individual having more than one dependent child	
	TAX		TAX		TAX		TAX	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Rs	Rs		Rs		Rs		Rs	
4,000	—	—	—	—	—	—	—	—
5,000	138	2.76	55	1.10	33	0.66	11	0.22
6,000	248	4.13	165	2.75	143	2.38	121	2.02
7,000	358	5.11	275	3.93	253	3.61	231	3.30
8,000	468	5.85	385	4.81	363	4.54	341	4.26
9,000	578	6.42	495	5.50	473	5.26	451	5.01
10,000	688	6.88	605	6.05	583	5.83	561	5.61
12,000	1,018	8.48	935	7.79	913	7.61	891	7.43
14,000	1,348	9.63	1,265	9.04	1,243	8.88	1,221	8.72
15,000	1,513	10.09	1,430	9.53	1,408	9.39	1,386	9.24
16,000	1,733	10.83	1,650	10.31	1,628	10.18	1,606	10.04
18,000	2,173	12.07	2,090	11.61	2,068	11.49	2,046	11.37
20,000	2,613	13.07	2,530	12.65	2,508	12.54	2,486	12.43
24,000	3,933	16.39	3,850	16.04	3,828	15.95	3,806	15.86
25,000	4,263	17.05	4,180	16.72	4,158	16.63	4,136	16.54
30,000	6,463	21.54	6,380	21.27	6,358	21.19	6,336	21.12
36,000	9,763	27.12	9,680	26.89	9,658	26.83	9,636	26.77
42,000	13,063	31.10	12,980	30.90	12,958	30.85	12,936	30.80
48,000	16,363	34.09	16,280	33.92	16,258	33.87	16,236	33.83
60,000	24,063	40.10	23,980	39.97	23,958	39.93	23,936	39.89
72,000	32,093	44.57	32,010	44.46	31,988	44.43	31,966	44.40
90,000	44,963	49.96	44,880	49.87	44,858	49.84	44,836	49.82
1,00,000	52,113	52.11	52,030	52.03	52,008	52.01	51,986	51.99
5,00,000	3,73,863	74.77	3,73,780	74.76	3,73,758	74.75	3,73,736	74.75
10,00,000	7,86,363	78.64	7,86,280	78.63	7,86,258	78.63	7,86,236	78.62

ANNEXURE—B

INCOME TAX PAYABLE IN THE CASE OF AN INDIVIDUAL HINDU UNDIVIDED FAMILY, UNREGISTERED FIRM, ASSOCIATION OF PERSONS ETC., AT THE RATES PROPOSED IN THE BILL FOR COMPUTATION OF ADVANCE TAX AND DEDUCTION OF TAX AT SOURCE FROM "SALARIES" DURING THE FINANCIAL YEAR 1969-70.

A. BASIC INCO TAX (i.e., before deduction on account of personal allowances and addition of surcharge)

Total income	Tax	For calculating tax at intermediate levels of income
Rs	Rs	
6,000	350	
7,000	450	For every additional
8,000	550	Rs 10 of income, ADD
9,000	650	Re 1.00 to the tax.
10,000	750	
10,000	750	
11,000	920	
12,000	1,090	For every additional
13,000	1,260	Rs 10 of income, ADD
14,000	1,430	Rs 1.70 to the tax.
15,000	1,600	
15,000	1,600	
16,000	1,830	For every additional
17,000	2,060	Rs 10 of income, ADD
18,000	2,290	Rs 2.30 to the tax.
19,000	2,520	
20,000	2,750	
20,000	2,750	
21,000	3,050	For every additional
22,000	3,350	Rs 10 of income, ADD
23,000	3,650	Rs 3.00 to the tax.
24,000	3,950	
25,000	4,250	
25,000	4,250	
26,000	4,650	For every additional
27,000	5,050	Rs 10 of income, ADD
28,000	5,450	Rs 4.00 to the tax.
29,000	5,850	
30,000	6,250	
30,000	6,250	
31,000	6,750	
32,000	7,250	
33,000	7,750	
34,000	8,250	
35,000	8,750	
36,000	9,250	
37,000	9,750	
38,000	10,250	For every additional
39,000	10,750	Rs 10 of income, ADD
40,000	11,250	Rs 5.00 to the tax.
41,000	11,750	
42,000	12,250	
43,000	12,750	
44,000	13,250	
45,000	13,750	
46,000	14,250	
47,000	14,750	
48,000	15,250	
49,000	15,750	
50,000	16,250	
50,000	16,250	For every additional
60,000	22,250	Rs 10 of income, ADD
70,000	28,250	Rs 6.00 to the tax.
70,000	28,250	
80,000	34,750	For every additional
90,000	41,250	Rs 10 of income, ADD
1,00,000	47,750	Rs 6.50 to the tax.

Total income Rs	Tax Rs	For calculating tax at intermediate levels of income
1,00,000	47,750	
1,50,000	82,750	For every additional Rs 10 of income, ADD Rs 7 00 to the tax.
2,00,000	1,17,750	
2,50.000	1,52,750	
2,50,000	1,52,750	
3,00,000	1,90,250	
4,00,000	2,65,250	
5,00,000	3,40,250	
6,00,000	4,15,250	
7,00,000	4,90,250	
8,00,000	5,65,250	
9,00,000	6,40,250	
10,00,000	7,15,250	For every additional Rs 10 of income, ADD Rs 7 50 to the tax
11,00,000	7,90,250	
12,00,000	8,65,250	
13,00,000	9,40,250	
14,00,000	10,15,250	
15,00,000	10,90,250	
16,00 000	11,65,250	
17,00,000	12,40,250	
18 00 000	13,15,250	
19,00,000	13,90,250	
20,00,000	14,65,250	

B TAX RELIEF ON ACCOUNT OF PERSONAL ALLOWANCES IN THE CASE OF RESIDENT INDIVIDUALS AND HINDU UNDIVIDED FAMILIES ONLY.

From the income-tax as calculated above, deduct the appropriate amount indicated below

(i) Resident individual

Unmarried	Rs 125
Married	Rs 200
Married with one dependent child	
Married with more than	Rs 220
one dependent child	Rs 240

Note Where the individual has a total income not exceeding *Rs 10,000* and has incurred expenditure for maintenance of a parent or grand parent who is dependent on the individual the above mentioned amounts will be increased by Rs 20 in each case

(ii) Resident Hindu undivided family:

Where the family has—	
No minor co-parcener	Rs 200
One minor co-parcener mainly supported from income of the family	Rs 220
More than one minor co-parcener mainly supported from the income of the family	Rs 240

C SURCHARGE.

To the net income-tax (after deduction of tax relief on account of personal allowances as at 'B' above), ADD 10% thereof, by way of surcharge

D EXAMPLE OF TAX CALCULATION:

Income			Rs 23,540
A	Basic income-tax		
	On Rs 23 000		Rs 3,650
	On Rs 540	54x3	(+) Rs 162
	Rs 23 540		Rs 3,812
B	Deduction on account of personal allowances (Tax payer being a resident individual—married and having more than one dependent child)		(—) Rs 240
	Net income-tax		Rs 3 572
C	Add surcharge @ 10 per cent of basic income-tax		Rs 357 20
			Rs 3,929 20
	Tax payable (rounded off to the nearest rupee)		Rs 3,929

Proposed Revision of Telephone and Telegraph Tariffs

Item	Existing tariff			Proposed tariff	
TELEPHONES					
1. Rentals for direct exchange lines within the local area					
(A) Measured rate systems					
(i) Calcutta, Bombay, Madras and Delhi.	Rs 75 per quarter			Rs 90 per quarter	
(ii) All other measured rate exchanges.	Rs 60 per quarter			Rs 75 per quarter	
(B) Flat rate systems					
(i) Exchanges providing 24 hours' service	Rs 300 per annum or Rs 27 per month			Rs 340 per annum or Rs 30 per month	
		Annual	Monthly		
(ii) Exchanges providing restricted hours of service	Exchanges of over 20 lines	Rs 250	Rs 23	No change	
	20 lines and less	Rs 180	Rs 17		
2. Casual connections.	Period	Rental		Period	Rental
		Rs			Rs
(i) Measured rate systems.	1 to 10 days	25		1 to 10 days	30
	11 to 30 days	50		11 to 30 days	60
	31 to 60 days	100		31 to 60 days	120
(ii) Flat rate systems	Rs 2.50 per day subject to a minimum of Rs 25			Rs 3.00 per day subject to a minimum of Rs 30	
3. Directory enquiry service	Free of charge			As for one local call	
4. Additional charges for particular person, fixed time and subscription fixed time calls.	Basic trunk charge	Additional charge		Basic trunk charge	Additional charge
	Rs	Rs		Rs	Rs
	0.50	0.50		0.50	0.25
	1.00	0.50		1.00	0.50
	2.00	1.00		2.00	1.00
	3.00	1.00		3.00	1.50
	5.00	2.00		5.00	2.50
	8.00	2.00		8.00	4.00
	12.00	4.00		12.00	6.00
	16.00	4.00		16.00	8.00
5. Leased speech circuits.	Up to 200 miles	Rs 200 per mile per annum		Uniform rate of Rs 125 per kilometre per annum	
	Beyond 200 miles	Rs 150 per mile per annum			

Telephones—Estimated additional revenue in a year Rs 5.89 crores

TELEGRAPHS

Item	Existing tariff	Proposed tariff
Inland telegrams	Ordinary Rs / Express Rs	Ordinary Rs / Express Rs
(i) Greeting telegrams	First eight words: Ordinary 1.00, Express 2.00 Each additional word: Ordinary 0.10, Express 0.20	First eight words: Ordinary 1.20, Express 2.40 Each additional word: Ordinary 0.10, Express 0.20
(ii) Multiple telegrams (Non-press)	For each address after the first— 25 paise of any number of chargeable words not exceeding 100 and 25 paise for every additional 100 chargeable words or part thereof.	For each address after the first— 30 paise for any number of chargeable words not exceeding 100 and 10 paise for every additional 20 chargeable words or part thereof.
(iii) Multiple press telegrams		
For a locality served by one and the same telegraph office, or by different telegraph offices within the free delivery radius of a central telegraph office.	35 paise for any number of chargeable words not exceeding 100 and Seven paise for every additional 20 words or part thereof.	40 paise for any number of chargeable words not exceeding 100 and 10 paise for every additional 20 words or part thereof.
(iv) Multiple press telegrams for different telegraph offices not within the free delivery radius of a central telegraph office.	For the first address in— The second telegraph office: Three-fourth of the charges for a single inland press telegram. The third telegraph office: Half of the charges for a single inland press telegram. The fourth and subsequent telegraph offices: One-fourth of the charges for a single inland press telegram.	For the first address in the second and subsequent telegraph offices: Three-fourth of the charges for a single inland press telegram
2. Phonogram fee (Booking of telegrams on telephone)	No charges for booking	20 paise
3. Charges for telegrams booked on telex	No charges for booking	20 paise
4. Cancellation of telegrams	(i) Before transmission has begun: 25 paise (ii) In course of transmission or after transmission: Charges for the service advice telegram.	(i) Before transmission has begun: 50 paise (ii) In course of transmission or after transmission: 50 paise **plus** charges for the service advice telegram
5. Inspection of telegrams	50 paise per message	One rupee per message
6. Certified copies of telegrams	25 paise up to the first 100 words and 25 paise for every additional 100 words or part thereof.	One rupee up to the first 100 words and 50 paise for every additional 100 words or part thereof.
7. Fee for searching for telegrams	For searching either the sent or the received telegrams of one telegraph office for one day Rs 2 For searching both the sent and the received telegrams of one telegraph office for one day Rs 3	For searching either the sent or the received telegrams of one telegraph office for one day Rs 3 For searching both the sent and the received telegrams of one telegraph office for one day. Rs 5
8. Late fee	One rupee for each closed office	Rs 1.50 for each closed office
9. S.V.H. telegrams	charges as for an ordinary telegram	charges as for an express telegram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Item	Existing tariff		Proposed tariff
10. Leased circuits			
(i) Telegraph/Teleprinter circuits to parties other than the press	First 25 miles	Rs 60 per mile per annum	
	Next 475 miles	Rs 45 per mile per annum	Uniform rate of Rs 30 per kilometre per annum
	Beyond 500 miles	Rs 30 per mile per annum	
(ii) Telegraph/Teleprinter circuits to the press	Rs 30 per mile per annum		Rs 20 per kilometre per annum
11. Teleprinter (T/P) machine and telex service within the local area.			
(i) Rent for teleprinter (T/P) machine	Rs 1500 per annum		Rs 1800 per annum
(ii) Rental for telex service with teleprinter machine	Rs 1500 per annum		Rs 1800 per annum
(iii) Rental for telex service where T/P machine is provided by the subscriber himself	Rs 200 per annum		Rs 250 per annum
(iv) Call charges for telex service			
(a) Local	50 paise per call for every 3 minutes or part thereof		60 paise per call for every 3 minutes or part thereof
(b) Long distance	50 paise per call per unit period		60 paise per call per unit period

Telegraphs—Estimated additional revenue in a year ... Rs. 0.57 crores

SUMMARY OF ESTIMATED ADDITIONAL REVENUE IN A YEAR

Telephone tariffs	Rs 5.89 crores
Telegraphs tariffs	Rs 0.57 crores
Total	Rs 6.46 crores

REVENUE BUDGET

Receipts

(Rs crores)

Item	1968-69 Budget	1968-69 Revised	1969-70 Budget
Tax Revenue			
Taxes on income and expenditure			
Corporation tax	320.35	322.00	330.00
			— 3.80*
Taxes on income other than corporation tax ..	319.65	333.00	345.00
			+17.30*
Expenditure tax	0.03	0.03	0.01
Taxes on property and capital transactions.			
Estate duty	7.50	7.00	7.50
Taxes on wealth	11.00	11.00	12.00
Gift tax	1.75	1.75	1.50
Land revenue	0.18	0.31	0.20
Stamps and registration ...	1.81	2.47	2.78
Taxes on commodities and services.			
Customs	539.27	445.00	426.00
			+ 9.20*
Union excise duties ..	1286.08	1320.45	1421.63
			+104.57*
State excise duties ...	3.97	4.66	4.94
Taxes on vehicles ...	1.61	1.67	1.81
Sales tax	21.07	23.28	25.96
Other taxes and duties ...	6.21	8.06	8.49
Total gross tax revenue ...	2520.48	2485.68	2587.80
			+127.27*
Less transfers to states:			
Income-tax	156.50	194.51	182.07
			+ 2.50*
Estate duty@	6.81	5.54	7.11
Union excise duties ...	274.37	290.93	302.40
			+24.62*
Total transfers to states: ...	437.68	490.98	491.58
			+27.12*
Net tax revenue ...	2082.80	1994.70	2096.22
			+100.15*
Non-tax revenue			
Interest receipts:			
From state and union territory governments ...	205.00	227.00	249.00
From others	113.01	137.73	152.10
Dividends			
From Railways	152.00	151.34	159.01
From P & T	12.82	11.96	13.17
From other undertakings ...	10.83	12.10	12.54
Currency and mint ...	86.05	87.19	94.93
Other receipts	97.26	126.66	122.94
Total non-tax revenue ...	676.97	753.98	803.75
Total revenue receipts (net)	2759.77	2748.68	2899.97
			+100.15*

* Effect of budget proposals.

@ Includes Rs 0.4 lakhs in 1968-69 B.E. and R.E. and 1969-70 B.E. for union territories with legislature.

Disbursements

(Rs crores)

Item	1968-69 Budget	1968-69 Revised	1969-70 Budget
I.A. Development expenditure.			
Social services:			
Education, scientific research and survey ..	131.90	125.57	141.37
Medical and public health	25.74	23.37	27.36
Labour and employment	10.53	10.59	11.42
Broadcasting	9.21	9.99	10.73
Economic services:			
Agriculture and allied services	30.21	26.67	32.79
Industries	30.21	30.97	30.95
Export promotion .	40.00	34.00	44.00
Irrigation and power ..	3.55	2.95	4.39
Public works .	15.73	16.00	17.09
Transport and communications ..	29.18	34.87	38.17
Other services ..	22.73	19.53	22.12
Total development expenditure	348.99	334.51	380.29
B. **Defence expenditure (Net)**	894.46	943.63	985.78
C. **Other expenditure:**			
Tax collection	34.56	34.83	39.32
Administrative services	150.99	162.98	174.31
Interest payments ..	550.32	527.69	568.82
Currency and mint .	24.45	24.99	26.44
Other services .	146.80	179.76	188.79
Total other expenditure ...	907.12	930.25	997.68
Total expenditure ...	2150.57	2208.39	2363.75
II. Assistance to state and union territory governments:			
Grants under the substantive provision of Art, 275(1)	140.61	140.61	176.81
Other grants ...	337.67	396.05	419.37
Total assistance to state and union territory governments	478.28	536.66	596.18
Total revenue disbursements	2628.85	2745.05	2959.93

CAPITAL BUDGET

Receipts

(Rs crores)

Item	1968-69 Budget	1968-69 Revised	1969-70 Budget
Debt raised in India:			
Receipts	300.50	320.96*	500.00
Less repayments	244.01	246.00	400.00
. Net	56.49	74.96	100.00
Foreign Loans:			
P.L. 480 rupee loans)			
P.L. 480 dollar credit) ...	244.00	240.00	175.00
Other loans	775.00	628.54	675.00
Total receipts	1019.00	868.54	850.00
Less repayments	194.47	169.62	207.60
Net	824.53	698.92	642.40
Repayment of loans and advances			
By state and union			
territory governments ...	425.00	575.00	540.00
By others	124.00	160.00	205.00
Small savings (net) ...	120.00	125.00	135.00
Public provident fund ...	10.00	2.00	5.00
Compulsory deposits (net) ...	—0.25	—0.25	—25.00
Income-tox annuity deposits (net)	—9.00	—4.00	—10.25
PL 480 deposits (net) ...	25.00	—59.55	40.11
Miscellaneous other heads (net)	81.93	225.48	97.62
Total capital receipts . ..	1657.70	1797.56	1729.88
Total receipts . ..	4417.47	4546.24	4629.85
			+100.15†
Revenue deficit ...	..	...	...
Overall deficit ..	289.27	259.67	350.00
			—100.15†

* Excludes conversion of ad hoc treasury bills of Rs 78 crores.

† Effect of budget proposals.

Disbursements

(Rs crores)

Item	1968-69 Budget	1968-69 Revised	1969-70 Budget
A. Development expenditure:			
Social services			
Medical and public health	0.52	0.30	0.47
Broadcasting	4.22	4.14	3.69
Economic services			
Agriculture and allied services	10.47	8.86	26.68
Industries:			
Iron and steel ...	115.00	115.00	170.00
Other metallurgical industries	17.90	22.48	38.40
Machinery and Engineering industries ...	9.80	9.58	3.46
Coal	7.10	8.44	15.80
Petroleum	0.09	4.90	1.79
Chemicals and fertilisers	14.62	17.20	28.92
Other items ...	11.47	16.21	23.80
Atomic energy development	12.92	8.71	18.54
Irrigation and power ...	49.73	57.29	58.46
Public works	30.54	22.51	30.60
Transport and communications	62.23	62.83	80.20
Railways	143.00	134.09	132.60
Posts and telegraphs ...	30.46	30.45	34.16
Grants for development (other than state and union territory governments) ...	2.39	2.12	1.48
Total developmental expenditure	522.46	523.11	669.05
B. Defence expenditure ...	120.80	107.75	124.22
C. Other expenditure: ...	93.38	—101.14	—28.49
Total expenditure ...	736.64	529.72	764.78
II. Assistance to state and union territory governments:			
Grants for development	24.84	21.71	4.80
Loans and advances ...	855.68	915.16	793.74
Total assistance to state and union territory governments	880.52	936.87	798.54
III. Loans and advances to public sector undertakings and other parties	460.73	594.27	456.60
Total capital disbursements	2077.89	2060.86	2019.92@
Total disbursements ...	4706.74	4805.91	4979.85
Revenue surplus ...	130.92	3.63	40.19*
Overall surplus	...	...	...

@ In addition, the public sector undertakings including the Railways and the P & T will incur developmental expenditure amounting to Rs 165 crores out of their own resources.

* Effect of budget proposals.

SUMMARY OF BUDGETARY POSITION

(Receipts)

(Rs crores)

	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Accounts 1967-68	Budget 1968-69	Revised 1968-69	Budget 1969-70
Revenue										
Tax revenue	872.57	1057.42	1370.42	1559.39	1780.91	1929.97	1932.49	2082.80	199.70	2096.22
Non-tax revenue	316.57	402.97	498.16	542.35	563.49	570.17	652.80	676.97	753.98	803.75
Total revenue receipts	1189.14	1460.39	1868.92	2101.74	2344.40	2500.14	2585.29	2759.77	2748.68	2899.97
Capital										
A. Debt raised in India*	206.02	286.56	376.41	298.69	283.85	278.55	351.90	300.50	320.96	500.00
Less repayments	137.62	182.30	175.97	189.04	173.36	182.75	258.37	244.01	246.00	400.00
Net	68.40	104.26	200.44	109.65	110.49	95.80	93.53	56.49	74.96	100.00
B. Foreign loans PL 480 rupee loans) PL 480 dollar credit)	54.71	79.74	66.17	170.38	80.00	350.00	280.58	244.00	240.00	175.00
Other loans	259.62	259.83	318.40	399.35	489.97	514.26	508.35	775.00	628.54	675.00
Total receipts	314.33	339.57	384.57	569.73	569.97	864.26	788.93	1019.00	868.54	850.00
Less repayments	65.62	46.30	63.73	84.42	88.08	159.42	187.78	194.47	169.62	207.60
Net	248.71	293.27	320.84	485.31	481.89	704.84	601.15	824.53	698.92	642.40
C. Repayment of loans and advances: By state & union territory governments	133.91	144.75	179.33	216.02	276.25	281.30	378.04	425.00	575.00	540.00
By others	66.92	26.12	35.05	73.04	97.24	137.25	116.40	124.00	160.00	205.00
D. Small savings (net)	87.77	74.10	126.99	127.43	151.19	118.12	123.13	120.00	125.00	135.00
E. Public provident fund	...	...	...	...	.	...	...	10.00	2.00	5.00
F. Compulsory deposits (net)	...	...	30.12	1.61	—1.61	—0.75	—0.39	—0.25	—0.25	—25.00
G. Income-tax Annuity deposits (net)	...	...	...	40.28	37.34	27.63	34.50	—9.00	—4.00	—10.25
H. PL 480 deposits (net)	54.13	48.07	87.38	—1.57	133.06	—2.66	93.56	25.00	—59.55	40.11
I. Miscellaneous other heads (Net)†	66.48	209.31	154.44	206.02	117.41	466.99	280.17	81.93	225.48	97.62
Total receipts	1915.46	2360.27	3003.51	3359.53	3747.66	4328.66	4305.38	4417.47	4546.24	4629.85
Revenue deficit	...	...	...	...						59.96**
Overall deficit	114.51	156.14	166.86	171.84	172.76	295.29	206.29	289.27	259.67	350.00‡‡

* Excludes conversion of ad hoc treasury bills of Rs 50 crores each in 1961-62 and 1962-63, Rs 75 crores in 1963-64 and Rs 50 crores each in 1964-65, 1965-66 and 1966-67 and Rs 75 crores each in 1967-68 and 1968-69.

† Excludes notional transfer of PL 480 loans to the Special Development Fund.

** Will be converted into surplus of Rs 40.19 crores as a result of budget proposals.

‡‡ Will be reduced by Rs 100.15 crores as a result of the budget proposals.

SUMMARY OF BUDGETARY POSITION

(Disbursements)

(Rs crores)

	Accounts 1961-62	Accounts 1962-63	Accounts 1963-64	Accounts 1964-65	Accounts 1965-66	Accounts 1966-67	Accounts 1967-68	Budget 1968-69	Revised 1968-69	Budget 1969-70
Revenue										
I. Developmental ex-expenditure	174.44	206.71	183.50	205.20	238.44	279.57	306.22	348.99	334.51	380.29
Defence expenditure (Net)	289.54	425.30	704.15	692.85	762.18	797.80	862.21	894.46	943.63	985.78
Other expenditure	405.33	519.91	563.69	661.14	699.95	789.07	839.35	907.12	930.25	997.68
II. Assistance to state and union territory governments	194.98	195.03	229.97	268.68	324.07	405.89	473.52	478.28	536.66	596.18
Total revenue disbursements	1064.29	1346.95	1681.31	1827.87	2024.64	2272.33	2481.30	2628.85	2745.05	2959.93
Capital										
I. Developmental expenditure	332.54	481.37	597.16	612.62	540.20	476.47	432.20	522.46	523.11	669.05
Defence expenditure	22.95	48.61	111.97	112.95	122.57	110.79	106.22	120.80	107.75	124.22
Other expenditure†	11.04	—13.99	23.01	29.76	—5.83	322.07	95.04	93.38	—101.14	—28.49
II. Assistance to state and union territory governments:										
Grants	10.94	13.74	16.44	19.46	38.82	35.01	33.05	24.84	21.71	4.80
Loans	443.47	511.09	583.60	678.70	828.92	930.89	891,94	855.68	915.16	793.74
III. Loans and advances to other parties	144.74	128.64	156.88	250.01	371.10	476.39	471.83	460.73	594.27	456.60
Total disbursement	2629.97	2516.41	3170.37	3531.37	3920.42	4623.95	4511.67	4706.74	4805.91	4979.85
Revenue surplus	124.85	113.44	187.61	273.87	319.76	227.81	103.99	130.92	3.63	...
Overall surplus	...	...	..	...	...	...	...	...	...	...

MATTERS OF MOMENT

Changing Structure of Industrial Finance

DR P. S. LOKANATHAN

I DEEPLY appreciate the honour done to me by the A.D. Shroff Memorial Trust in inviting me to deliver the Shroff Memorial Lecture this year. The title of my address is "Changing Structure of Industrial Finance"—a subject which would have made a great appeal to him were he alive and of which he was an undoubted authority. My acquaintance with Mr Shroff goes back to the days of the National Planning Committee set up by the Congress and we worked together in the Committee on Industrial Finance. Later in the preparation of the Bombay Plan, I was invited to join in its deliberations before it was finalised by its eminent authors of whom Mr Shroff was one. I was then editor of 'The Eastern Economist.' Later in 1945, when I accompanied the Indian industrialists' delegation as economist and secretary to the UK and the USA, I came in contact with him. In subsequent years, I had the privilege of knowing him, his methods of work, his deep and intimate knowledge of finance and industry. But what struck me most was his firm grasp of the essentials of money, banking and finance and the rare courage with which he expressed his views whether they were in accord or not with the current popular thinking. The country will gratefully remember him as one who had the boldness and vision to found the Forum of Free Enterprise at a time when the country had accepted economic planning in an extreme form, with its discriminating controls and inefficient government economic administration. The Forum is a useful and necessary corrective to the uncritical acceptance by the country of a system of planning which with all its merits and achievements led to serious and avoidable distortions of the economy and led to a suppression of initiative and loss of self-reliance. We owe a debt to him.

I

STRUCTURE OF INDUSTRIAL FINANCE

'Industrial Organization in India' was published in 1935. In it, I had devoted three chapters to industrial finance. The problems and conditions outlined in them remained more or less the same right up to the end of World War II and the ushering in of the new Independent India. Thus 1947 may be taken as a sort of watershed in dealing with industrial finance. Between 1947 and 1967, in a period of 20 years, something like a revolution has taken place; the structure of industrial finance has changed almost beyond recognition. While some problems still remain, many old and some new problems have been more or less earnestly dealt with. In the pre-Independence India, and especially in the earlier phase of industrialization, the bulk of the long-term and a considerable amount of even short-term working capital was provided by managing agents. Many may not be aware of the fact that in the earlier years of industrialization, commercial banking was yet to be firmly established and for several years later, the relationship between industry and commercial banks was far from close. Neither industry nor banks desired to get close to each other. Later, as industrialization got into stride, commercial banks were increasingly resorted to for working capital. But following the British practice, and unlike as in the continent and to a large extent in the USA, banks in India did not think of providing long-term finance to industry. They considered it as not within their purview. Even the working capital and short-term capital needed by industry was not fully met; a part had to be found by managing agents themselves who were the promoters, financiers and managers of the managed industrial companies. Owing to the lack of issue houses and investment trusts, there was no way of getting the initial capital for new companies nor for any expansion, and managing agents and promoters had to provide all the initial finance needed by the industry.

There was no wide basis of ownership of industrial shares. No large public issues could be floated and when they were, they were taken mainly by the promoters, their families and friends and some underwriters including a few financial companies which had been established. The lack of a good capital market, the relatively small investing public and the reluctance of savers to invest in industrial shares and securities led to the predominance of the role of managing agents who had to provide either directly or indirectly all the finance needed by industry. The public which had greater faith and confidence in managing agents than in industry was willing to place its savings in the form of short-term deposits. Underwriting facilities were very poor; no institution existed for providing long-term finance. Further, the establishment and growth of small and medium industries were hampered by lack of financial facilities. Even commercial banks which could have provided at least working capital did not care to touch them. Hence, small industrialists had no other resources except their own personal wealth and the financial help rendered by their families and friends.

But what a change has taken place since 1947! The decline in the financial role of managing agents since 1947 was more than made up by the establishment of a number of financial institutions, the first of which was the Industrial Finance Corporation of India (IFC) set up in 1948. This was followed by the growth of financial corporations and other institutions like the Industrial Credit and Investment Corporation of India (ICICI) and the Industrial Development Bank of India (IDBI) set up by the Reserve Bank of India (RBI). In addition, there is the newly established Unit Trust of India (UTI). These together with the investment activities of the Life Insurance Corporation of India (LIC), have filled many important gaps in industrial finance in the country. The rapid industrialization that has taken place in our country would not have been possible at all in the absence of these new institutions.

Commercial Banks' Role

Commercial banks too have changed their policies and attitudes; not only do they play a more vigorous role in satisfying the short-term needs of industry but also provide intermediate credit. In this they have been assisted by the IDBI, which has provided refinance facilities. Thus, we find today, first of all, initial capital provided by the ICICI, and underwriting facilities by many institutions including the ICICI, the IFC, the LIC and some commercial banks. Their investment in industrial shares and securities also helps in facilitating the flow of finance to industry.

The credit needs of the small industry are being met at least partially. Under the credit guarantee scheme of the RBI, commercial banks, and more especially the State Bank of India, have increased their supply of credit to the small industry. For purchase of machinery and equipment by the small-scale industries, National Small Industries Corporation has been established; it provides machinery on hire-purchase system. Under the new social control of banks

This is the text of a lecture delivered by Dr P. S. Lokanathan under the auspices of the A.D. Shroff Memorial Trust in Bombay on February 24, 1969.

the small industry has become a sort of preferred sector along with agriculture.

Since 1947, the capital market also has become much wider and better organised; especially in the 'fifties and the 'sixties, the public interest and capacity to invest in industrial shares have been greatly increased. You will thus see that the structure of industrial finance in India today is very very different from what it was 20 years ago. Not that all problems and difficulties faced by industry—big or small—have been overcome. There are still some gaps which remain; there are still some inadequacies and difficulties to which I would later revert. But the sheer magnitude of the transformation that has taken place since Independence has often been either missed or given inadequate recognition.

II

ROLE OF MANAGING AGENTS

Finance is the oxygen of industry. Without adequate finance made available at reasonable terms, it would not be possible for industry to develop. Industry needs three kinds of finance—initial capital, working capital and capital for expansion. The most difficult hurdle to cross is the initial finance required to get the industry off the ground. In smaller businesses this finance has to be generally provided by the promoter out of his own funds. But where a business is large, the promoter has to depend largely on the capital market which includes investment houses, stock exchanges, the new issues market and other financial institutions; these provide both the initial finance required and also the guarantee for the public floatation of capital issues. In developed countries there are specialised institutions which perform these different functions. The issue houses, for example, undertake the floatation of public issues and play an active role in creating public interest in them. There are underwriting firms which, for a small commission, are prepared to underwrite public issues. Stock brokers not only arrange for the absorption of shares by their clients but often act also as underwriters to public issues. An active stock exchange is, of course, a pre-requisite for the working of the new issues market.

So far as working capital is concerned, generally it is provided by commercial banks. A part of the working capital, which should be regarded as more or less permanent capital, should also be found by the industry itself out of its public issues. The capital for expansion if it is of modest dimension is generally found from depreciation funds and reserves out of profits. But where the needs are large, industrial units have recourse to rights shares (that is, shares allotted to the original shareholders) and to public issues. Thus an efficient banking system, an adequate and efficient network of financial institutions, a vigorous capital market and smoothly functioning stock exchanges are basic to financing industrial needs.

In pre-Independence India, although commercial banks were functioning reasonably satisfactorily, there was a big gap in the institutional finance. There were no issue houses, specialist underwriters, or financing institutions for long-term financing of industries. The stock exchanges also functioned only for large and well-known businesses; the medium-sized and small industries could not enjoy the services of stock exchanges.

Most of the early industries that were developed in India—cotton textiles, jute, coal mining, shipping, sugar, cement and others had to depend largely upon capital furnished by the promoters, and the promoters in India were the managing agents. They practically undertook not only the promotion of new companies and expansion of existing companies, but also provided all the initial finance required either through their own resources or by getting public subscription to the shares issued by them. Since the public had great confidence in the managing agency groups, generally there was little difficulty for them to raise the necessary initial finance. The percentage of finance actually furnished by the managing agents themselves varied from industry to industry, from managing agent to managing agent and also depended partly upon the size of the firms. British managing firms by and large provided more capital out of their own resources compared to Indian managing agents. But whatever be the initial capital provided by the managing agents, gradually, after the companies had started functioning, the managing agents generally tried to reduce their shareholdings in the companies which they had floated and used them for floating new companies. Thus the percentage of capital provided by managing agents became less as the companies became well established. The proportion of finance provided by managing agents to larger companies was much less than that provided to medium and smaller companies.

A method that was rather unique was adopted by the Ahmedabad textile industry by which the managing agents utilised the deposits which they were able to gather from their friends and other members of the public who had confidence in them. Although these deposits were withdrawable at short notice and could theoretically be utilised only for meeting the working capital needs of the industry, in practice the deposits were renewable; there were also term deposits extending for five to seven years. The Ahmedabad textile industry was thus able to develop largely on the basis of public deposits and although this may not be regarded as an ideal method of financing long-term requirement of industry, there is no doubt that the needs of industry were served very well by this method. But at a later date when industry faced a period of depression there were withdrawals of deposits which caused difficulty to it. But taking a broad view of the matter, it cannot be denied that the system of public deposits although

rendered by the financial institutions constituted 13 per cent of the gross private sector investment in the third Plan period, having increased from five per cent during the second Plan period.

In respect of share capital, a sample study of the RBI on "Survey of Ownership of Shares in Joint Stock Companies" reveals that the holdings of these institutions, excluding the LIC, increased from 1.3 per cent in 1959 to 6.6 per cent in 1965. During the same period, the investment of the LIC increased from 5.8 to 9.2 per cent. In 1965, the LIC became the largest single shareholder in the private sector. As regards the size of companies in which these institutions hold shares, their proportionate holdings were much larger in bigger companies than in small companies.

As already pointed out, financial assistance of these institutions was concentrated in more advanced states. Maharashtra, Gujarat, Tamil Nadu, and West Bengal got 52 per cent of the total assistance of the IFC up to June 30, 1968, 69.4 per cent of that of the ICICI up to December 1967 and 70 per cent of that of IDBI during the period July 1964 to June 1968.

An analysis of the Department of Company Affairs reveals that the distribution of financial assistance to business groups was as follows: 21 per cent of the total given by the IFC during the period 1961-62 to 1965-66 went to 24 business groups, 36.4 per cent of that given by the ICICI to 18 groups and 36 per cent of that of the IDBI to six groups of which 20 per cent went to one group only.

In evaluating the performance of these institutions and especially in criticizing the regional imbalances in the granting of advances to industry one has to bear in mind that they cannot be criticised for the shortcomings because, as pointed out by the chairman of the IFC recently, this assistance of long-term credit is only one of the several factors which goes into the establishment of an industry in an area. To quote his words, "While the corporation can assist in meeting a portion of the financial needs of an industrial concern, it cannot create the basic conditions required for the success of an industry. It cannot, for example, arrange for raw materials, create markets or provide the requisite entrepreneurial skills. Even in the financial field, it has to be recognised that the corporation which is required to function on business principles can only stretch itself to a point and take only limited and calculated risks to foster the establishment of industries in the underdeveloped states. For a major breakthrough, assistance has to be provided in other ways and possibly through different agencies".*

IV

HEALTHY STOCK EXCHANGES ESSENTIAL

In view of the contribution to the financing of the private sector by the financial institutions by way of long-term finance of loans and in some cases by shares and also in view of the underwriting functions undertaken by these institutions, there has been a general feeling that the private sector has ceased to be efficient and healthy stock exchange system has become unnecessary. In fact, the view has been expressed in high quarters that in view of these recent developments one can afford not to worry about an active capital market. Such a view is extremely short-sighted. As long as there is a private sector which has to function effectively and efficiently, the need for a healthy and active stock exchange is absolutely urgent.

In the first place, these financial institutions do not provide all the necessary initial finance for new businesses. A large proportion of the equity capital required by companies has to come from the general public, and this will only come under two conditions: (a) that the public has enough savings, and (b) that there is a healthy stock exchange which will enable the saver to choose his investments, to buy and sell them as and when he desires. There should be a market to enable him to shift his investments from one asset to another and from one company to another. It should ensure the liquidity and marketability of his investments. When he needs funds for consumption, he should be able to sell his investments readily.

Sluggish Market

Without these facilities, the general public would not be interested in industrial securities. A healthy market helps in allocating the savings of the public to alternate uses according to preferences; it satisfies the different tastes of savers and the needs of investors through its financial institutions. Unfortunately, on account of various developments in the 'sixties, the capital market became sluggish and the flow of funds to industry dried up. It is true there were many factors at work. In recent years, partly on account of recent continuous drought leading to a great decline in agricultural production, both the rate of growth of national income and of savings declined. The ratio of savings to national income which had reached about 10 per cent in 1964-65 had diminished to eight per cent and below. This decline in savings is a very serious factor; but the taxation policy of the government was a further aggravation.

In fact there has been an inherent contradiction between the industrial policy of the government and its fiscal policies. The industrial policy especially in its recent evolution and stress on the importance of the private sector in the mixed economy of the country could become effective only if the fiscal policy is in consonance with it. A significant expansion

* Chairman's speech at the tenth annual general meeting of the IFC held in September, 1968.

of the private sector and its contribution to industrial development can only take place if its financial resources match its obligations. The private sector undoubtedly needs a certain amount of foreign exchange for capital equipment and some essential intermediate goods and other raw materials not available in the country. This has been recognised and scarce foreign exchange has been allotted in terms of availability and priority. Through foreign collaboration too a part of the foreign exchange needed for purchase of machinery was secured.

Private Sector's Needs

The needs of the private sector in terms of rupee capital were not equally recognised. The financial and other institutions which have been set up after Independence provide long-term capital and underwrite shares and securities. But industry requires initial capital in the form of equities. Here there is still a gap. The existing institution that is capable of doing so and actually is doing to some extent is the ICICI. But its resources being limited, it has necessarily to adopt a highly selective approach. The LIC has recently taken a positive step and is underwriting industrial equities and also investing in industrial companies. The UTI is also similarly investing in equities; but even so, the most important source of finance for the equity capital of industrial companies is the large body of private savers. Their investments in equities have become very marginal due to a number of causes of which the most important is the fiscal policy of the government. Only last year's budget gave some welcome recognition to the need for strengthening the capital market.

The government's fiscal policy tended to damage the efficient working of the capital market. The dividend tax, the high corporate tax, the capital gains tax and various other taxes which hit savers, all tended to both reduce the saving of the public and to weaken the incentive to invest in the shares of industrial companies. Actually the returns from equities to shareholders of the new companies have become negative showing heavy losses to investors. The greater attractiveness of alternative forms of investment has led to a reluctance on the part of the shareholders to invest. The basic tax of 55 per cent on companies and the corporate tax on dividend should be reduced. The income from such investment should be treated as earned income as similar income from government securities is already so treated. The government's mistaken view that investors are rich and can be squeezed should be changed. The shareholders actually are by and large middle-income groups who would be willing to channel their modest savings to support the country's industrial ventures provided their savings are intact and a reasonable return is assured to them. Until the government recognises this basic point, the financial needs of the private sector cannot be fully met.

The Indian tax system bears more heavily on the corporate sector than elsewhere. While the corporate sector's tax is 55 per cent in India, it is much less in other countries such as the USA and the UK. It is true that some compensation is found in our fiscal policy by which considerable development rebates are granted and a tax holiday is given to new companies. But even taking all these into account, there is no doubt that the heavy corporate tax in an underdeveloped country such as India has contributed to the difficulty of industrial finance,

FISCAL MEASURES TO PROMOTE SAVINGS

Industrial enterprises in India are dependent on external finance to a larger extent than in western countries. This difference in the pattern of corporate finance should be

attributed to smaller retained earnings in India which have considerably declined over successive Plan periods. The decline has been very substantial in the case of large companies (with paid-up capital of more than one crore rupees), particularly since 1961. The proportion of internal resources to total funds has steeply declined from 67.8 per cent in 1961-62 to 52.3 per cent in 1963-64. The dividend policy of some of the industrial companies has also been partly responsible for the poor performance of retained earnings. Depreciation and other available funds are not as large as in other countries. The greater external reliance does imply that the capital market should function efficiently so as to satisfy the increasing demands of the corporate sector. But this has not been so. The price performance of industrial shares in India has been very poor compared to other countries such as the UK and the USA. The shareholder has suffered great losses during the last few years. The public subscription to shares had become so poor that the proportion of issues of new companies which the underwriters had to carry on their own shoulders had tended to become high amounting in 1964-65 to as much as 83 per cent. Even in the case of established companies the proportion is 40 per cent. As a result, there is a decreasing reliance on equity capital for financing new projects—the proportion of equity finance to total finance for such projects declined from 59 per cent in 1962-63 to 36 per cent in 1964-65. The proportion of equity capital from the general public fell from 25 per cent to three per cent.

It should be a matter of great concern that individuals are no longer taking any interest in the equity shares. The dependence on the financial institutions is growing to an excessive degree. The so-called institutionalization of the capital market should not replace the individual who should be the basic source of savings. Even in the USA and the UK where institutional funds are available in bulk, the individual still holds far greater proportion of the outstanding stocks. Further the capacity of government controlled financial institutions to replace the individual investors is also limited. The only organizations subscribing to industrial securities are the LIC, the IDBI and the UTI. Even with the addition of the ICICI, the combined resources of all of them is too limited to meet the entire demand of the private sector for new equity securities and that except for the LIC and the UTI all other institutions derive their finance only from government. They do not draw upon the savings of the community. Further the democratic structure of the shareholdings by individuals should be regarded as a healthy feature of the corporate enterprise.

Corporate Sector's Performance

Several explanations for the sluggishness of the capital market may be given; but not all of them are valid. The performance of the corporate sector is not bad; indeed it compares well with that in the UK and the USA. The growth of the corporate sector's profits has also been faster than the rise in the general level of prices and industrial production. What is needed is a sounder fiscal policy which would give encouragement to plough back the profits and bring about a revival of market for equity capital.

It took quite a time for the government to recognise this fact. Recognition came slow but has now come about; particularly in the 1968-69 budget some of the measures which were adopted had the effect of a good shot in the arm to the stock exchange. Thus in the field of personal taxation, annuity deposit scheme was discontinued; taxation on dividend income was also liberalised. In regard to the corporate sector, apart from the abolition of tax on excess distribution of equity dividends and the reduction of the rate of surtax, the Finance Act provided also for liberal deduction from taxable income of specified categories of expenditure incurred in connection with rising agricultural output and promotion of exports. Another important provision was the abolition of the distinction between earned and unearned incomes and the exemption of Rs 800 dividend income from taxation. While these measures are welcome, there should be continuity of the policy and further liberalization wherever possible. The savings rate on which ultimately industrial and other finances depend can also be increased by special techniques of savings promotion. The duty of the government and of the stock exchanges and the UTI should be to provide different kinds of incentive schemes to draw funds from different classes of investors with their different psychologies. Much would depend upon the ingenuity of the government in raising resources through meeting the varying needs of the investor. The establishment of the UTI is a significant contribution to increasing savings. It would be desirable to have not only more unit trusts but unit trusts to be organised in the private sector. In the USA the Mutual Funds which are the counterpart of the UTI have made a significant contribution to savings. Similar possibilities exist in India.

Recent Trend

Another recent trend has been the distinct shift in favour of fixed income-yielding securities, preference shares and debentures. The proportion of preference shares and debentures has been increasing and since 1963 almost 90 per cent of them have been offered to public subscription. Only companies which were in urgent need of external finance came to the market, issued large amounts of fixed income-yielding securities and offered almost the full amount to the public for subscription. At the same time only a decreasing proportion of equity capital was offered to the public except in 1965. Lastly, market value of shares issued during these years have shown substantial decline.

The capital market which was functioning with a reasonable

degree of efficiency became very weak in the wake of the Chinese aggression and the fiscal measures that followed it. The stagnation of the capital market also led to distortion in the structure of the corporate sector. The difficulty in getting access to the capital market reduced the number of fresh issues and a heavier recourse to borrowing. Since a good portion of it was short and medium-term, the repayment difficulties impaired managerial efficiency. For, with the difficulty in raising equity capital and the institutional investors' preference for preference shares, corporate sector has to fall in line even at the risk of the capital structure becoming lopsided. In recent years, especially after 1965-66, the dividend earning capacity of most companies declined. During 1965-66, 40 per cent of the 1,333 companies each with a paid-up capital of Rs 5 lakhs and over either declared no dividend or a very low one. The chairman of the IFC has reported that its investment in shares of industrial projects at the end of June 1968 amounted to Rs 10.5 crores yielding as income from dividend of about half per cent against its borrowing of 5.5 per cent to six per cent. The problem of disposing of shares devolving on the corporation as a result of underwriting commitments has continued to be a difficult one. The growing disparity has smashed the cult of equity. The corporate sector has sought to finance its long-term investments by resorting to short- and medium-term borrowing, and the government has encouraged this process by treating interest paid as an item of expenditure and taking the dividend twice, once as part of the companies' profit and second as part of the shareholders' income. More recently, in 1968-69 budget, as pointed out earlier, the government has granted exemption from tax for the first Rs 500 of dividend income and for the first Rs 1,000 of the dividend of the UTI and a tax-free certificate for four years for investment in capital issues subject to certain conditions.

An Interesting Suggestion

One suggestion which I would like to make in order to energise the capital market is to permit industrial companies to pay a minimum rate of interest, say about four per cent on all new equities issued to the public leaving the shareholders to receive dividends according to profits earned. The interest of four per cent should be treated as expenditure like that of borrowed capital. This may seem a somewhat novel and even revolutionary suggestion. But there is nothing inherently wrong or objectionable in it. If this is done, there will be some incentive to the shareholders to invest in equities because of the guaranteed rate of interest.

To conclude, there has been a revolutionary change in the character of industrial finance since 1951. The rapid industrialization that has taken place in the country with its great diversification has led to large and increasing demands for finance of various kinds. Institutional finance which was wholly absent in pre-Independence India is now playing a very important role. The ability of managing agents to provide finance has declined. Their contribution to the financing of large companies is very modest. On the other hand, managing agents still play a significant role in the financing of medium and relatively small companies. With the impending abolition of the managing agency system there could be a lacuna in the financial structure relating to medium-sized companies.

Another basic factor affecting industrial finance is the inadequacy of total savings in the country. Because of the lower rate of growth of national income in recent years combined with other factors the proportion of savings to national income has declined. But there are hopes of recovery; thanks to increased agricultural income, the rural sector has large incomes which need to be tapped and mobilised. A part of the additional incomes in the rural sector will undoubtedly go to direct investment in agriculture and other activities. But it should be possible to divert a substantial proportion of the increased income to the financial and banking system. If this is done, it would enable industry to get more resources indirectly through the banking system, through large mobilization of rural funds. Compared to the situation before 1950, the situation today is certainly much better. There is every reason to hope that finances will not be a serious bottleneck for more rapid industrial development. Mention should be made of the various measures taken by the RBI to extend credit facilities in various ways and for various purposes. The credit guarantee system for the small industry, to export, the package credit that is being given to industry for exports and the refinancing facilities afforded by banks, are all substantial improvements in the financial structure. The decision of the IDBI to directly finance exporters is another welcome trend. Altogether the prospects for better financing of industry are bright.

Serious Difficulties

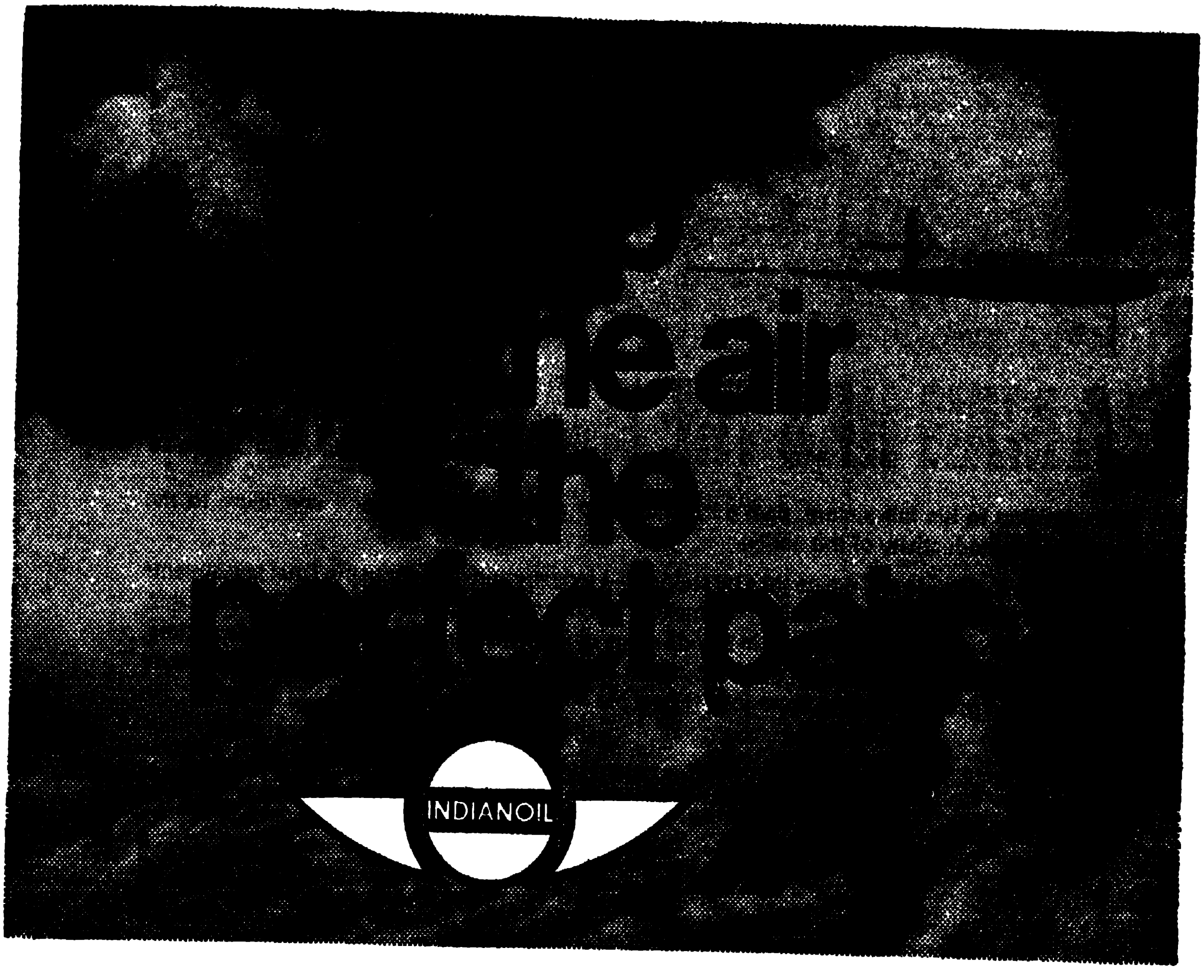
Until recently the difficulties of the medium and small industries in raising sufficient resources were very serious. As has been pointed out earlier, the supply of credit to medium industries by managing agents was a much larger proportion of their requirements than that to their companies. With the proposed abolition of managing agency system, there is bound to be a gap in the source of finance for medium industries. It is necessary that this gap should be filled by specially requiring one of the existing financial institutions

to set aside a larger portion of its assets to medium industries. The difficulties of small industries in securing adequate finance still persist. Until the Small Industries Board was established, which made earnest and continuous efforts to ensure greater flow of credit to smaller industries, they had to depend upon money-lenders, 'multanis' and others for their financial requirements. On account of the rigidity of the commercial banking system, they had to resort to borrowings from their relatives and friends as well as from money-lenders. However, since 1958, conditions have greatly changed. The State Bank of India and other commercial banks have now announced their policy of granting working capital to small industries and during the last year, the total amount of bank credit to small industry was of the order of Rs 30 crores. The National Credit Council, which has been established in pursuance of the policy of the social control of banks, has indicated to the banks a target of Rs 100 crores which is to be provided as working capital to the small industry. If this decision is implemented, there is no need for small industries which are viable and which have promise of profitability to suffer for lack of working capital.

But their needs for relatively long-term capital for purchases of machinery and equipment and for expansion would remain; these have been met only partially by the National Small Industries Corporation. The small industry sector so far has been getting only a small fraction of its credit requirements from institutional sources. From a survey conducted by the Development Commissioner of Small Industries it seems that only about 20 per cent of the credit needs of the small sector are met by the institutions. For the rest, it has to be dependent largely upon internal sources and open loans from friends and relatives. During the third Plan period, the financial assistance given by different institutions to all industries—large, medium and small—amounted to Rs 573.3 crores. But only about Rs 18 to 20 crores were advanced to small industries by state financial corporations. It has been stated that the additional fixed investment needed by this sector would be about Rs 250 to 300 crores by the end of the fourth Plan. At one time a proposal to set up a financial institution specially to serve the small industry sector was seriously considered. But the proposal was not pressed because it was felt that through the commercial banks and existing financial institutions, it should be possible to meet the essential financial requirements of the small industry sector. Working capital requirement might be of the order of Rs 600 crores by 1973-74. In view of this it may be hoped that the short-term credit needs of the small industry sector may be fully provided by the State Bank and other commercial banks.

Question of Resources

In the fourth Plan, the investment target for the private industrial sector is to be of the order of Rs 2,500 crores for large and medium industries. The question arises whether the sources available for private industry will provide all the required amounts. If the capital market improves—and this would depend very much upon the fiscal policy of the government—it may be expected that the investing public might show a greater degree of interest in industrial securities. In the fourth Plan, therefore, it is possible to raise by way of equity a much larger proportion than in the last few years. Provided the economy recovers fast from the recent recession, industry might be expected to work at full capacity and earn reasonable profit. The expectation of profit will undoubtedly stimulate further expansion as well as establishment of new industries. It may be reasonably expected that the proportion of internal resources available will greatly improve. The foreign private capital in partnership with Indian industry or separately might also bring in a reasonable amount of capital. For the balance, commercial banks and the financial institutions might be expected to provide no less than 55 per cent of the credit


INDIANOIL

requirements. The LIC and the UTI might add another 4.65 to five per cent; the term credit by commercial banks might add up to another five per cent. Thus there should be no insuperable difficulty in finding the necessary finance. In spite of the shift in emphasis and responsibility to agriculture, there should be no difficulty for the commercial banks to provide the needed working capital for industry. The revival of public deposits with industrial companies will also be a help: under suitable safeguards, they can serve as additional resources for working capital.

Whether it is internal or external finance, or whether it be finance for the private sector or the public sector, ultimately the main source is national income. The rate of savings, in terms of national income has gone up from five per cent to 10 per cent since 1951; but in 1965-66 and 1966-67, it has gone down. What we need is therefore the raising of the level of savings to around 12-14 per cent in the next five years of the fourth Plan. It is not enough if savings increase. It is also a question of diverting savings from unproductive investment to productive investment. Also it should be a policy to ensure that the savings flow through financial institutions which alone can finance essential requirements. From this point of view, the increased income with the agriculturists, however welcome it is, can be effectively utilised only if it can be mobilised by the banking system and for various economic sectors. But taking an overall view, one can reasonably be optimistic about the future.

Trends in Our Foreign Trade

MANUBHAI SHAH

WE MAY first review in brief the trends in world economy and their impact on our country and other developing countries.

According to the latest issue of International Financial Statistics, the monthly bulletin of IMF, the value of world exports exceeded $200 billion (Rs 150,000 crores) over the 12-month period ending September 30, 1968. This is a record level in world exports; it represents doubling of the value of world exports in a decade. The distribution of the export trade among various countries of the world varies considerably. The increase in the dollar value of total world exports was 101 per cent from 1959 to the year ended September 30, 1968. The rise for industrialised developed countries was 116 per cent. The exports of oil-producing countries rose by 75 per cent while those of other developed countries rose by 59 per cent. The developing countries, however, lagged far behind; their combined export earnings rose only by about six per cent between 1959 and 1968. What a great pity! The "Development Decade" announced by the United Nations (UN) for the developing countries of the world is indeed turning into a "Frustrating Decade" for them.

India's exports in the pre-devaluation years had touched the highest level at Rs 1,287 crores (equal to $1715 million= Rs 817 crores at pre-devaluation rate of exchange) in 1964-65 (April-June). After receiving a severe setback in the immediate post-devaluation period when exports fell to Rs 1,157 crores in fiscal year 1966-67, the value of India's exports in post-devaluation terms touched Rs 1200 crores in 1967-68 (fiscal year). The exports may reach Rs 1,350 crores in 1968-69 (fiscal), i.e., about Rs 63 crores more in relation to 1964-65. What we are witnessing today is basically a recovery from the disastrous effects of an ill-advised devaluation of the rupee in June 1966 which did not help in stimulating our exports as the following figures (Table I) show:

TABLE I
INDIA'S EXPORTS: 1964-65—1968-69

	$ million	Rs crores (at post-devaluation rate of exchange)
Pre-devaluation year June 1964—May 1965	1803	1353
Pre-devaluation year June 1965—May 1966	1720	1290
Post-devaluation year June 1966—May 1967	1525	1144
Post-devaluation year June 1967—May 1968	1649	1237
Post-devaluation year 1968-69 (Estimate for April-March)	1800	1350

There was a steep decline in the value of our exports (in terms of foreign currencies) after devaluation. With all the expected and planned increases in the exports of steel, engineering goods, cut and polished diamonds and precious stones valued at about Rs 200 crores, there should have been a substantial increase in our exports above the level reached in 1964-65 (fiscal). Let us hope that in 1969-70, our exports will not stagnate at the level attained in the current year. Incidentally, as compared to the exports of pre-devaluation year June 1964 to May 1965, the exports even for the best post-devaluation fiscal year—April 1968-March 1969—show no increase at all.

It may be recalled that during the five years prior to devaluation, our annual exports increased by about Rs 200 crores i.e. from Rs 610 crores per year to Rs 817 crores per year in 1964-65, i.e., the annual rate of increase was about Rs 40 crores per year (Rs 40 crores pre-devaluation=Rs 62 crores at post-devaluation rate of exchange). In some years the annual increase in exports was somewhat more while in others it was a little less. Therefore, the expected increase of about Rs 63 crores in our exports, in 1968-69 (fiscal) over the exports of 1964-65 (fiscal) after almost three years of devaluation is not any indication of a breakthrough or of a sustained annual increase in our exports.

Taking a long-term view, our trade deficit has been progressively increasing over the years as will be evident from Table II.

TABLE II
TRADE DEFICIT OVER THE YEARS

(Rs crores)

	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	1964-65	1967-68	Estimates for 1968-69. Based on nine months.
	(Pre-devaluation rates)			(Post-devaluation rates)		
Imports	3617	4882	6138	1263	1974	1750
Exports	3029	3046	3807	817	1199	1350
Trade deficit:						
Total	586	1836	2331	446	775	400
Annual average	118	367	466	.	..	...

Our imports include such commodities as foodgrains, raw cotton, vegetable oils and various other articles received by way of gifts or grants which are also indicated as imports in our trade statistics even though they are not received against payment in foreign currencies or through any exchange of goods. Therefore, the entire imports under PL 480 and commodities imported as gifts from friendly countries should not be included while comparing the movements in the import bill.

The improvement in the trade deficit in 1968-69 is more the result of a reduction in imports of foodgrains due to two

bumper harvests and not because of any significant increase in exports.

TABLE III
COMPOSITION OF INDIA'S EXPORTS: 1964-65, 1967-68 AND 1968-69.
(Post-devaluation rate of exchange)

(Rs crores)

	1964-65	1967-68	1968-69 Estimated
Jute manufactures	267.62	234.07	210.00
Tea	198.33	180.20	180.00
Cotton piece goods and made-up articles	118.30	59.58	95.00
Oilcakes	63.31	45.46	50.00
Spices	26.65	27.22	18.00
Mica	15.45	15.05	15.00
Coir yarn and manufactures	18.02	12.74	14.00
Manganese ore	20.90	11.10	11.00
Handloom fabrics	15.30	5.78	5.00
Cotton yarn	14.05	6.88	12.50
Ferro manganese and ferro alloys	9.00	2.14	6.00
Art silk fabrics including synthetic fibre fabrics.	10.38	1.37	3.00
Iron and steel scrap	12.30	10.20	8.10
Iron and steel	6.66	52.06	75.00
Leather manufactures	43.54	62.57	71.00
Iron ore	59.45	74.78	85.00
Cut and polished diamonds, precious stones & jewellery	10.30	28.00	38.00
Engineering goods	35.00	45.00	95.00

About two-thirds of our exports are bought by the developed countries which look upon the less developed countries as suppliers of raw materials and intermediate goods. The remaining one-third of our exports are purchased by Asian, African and Latin American countries. India's market for a large range of industrial goods to south Asian countries fell from Rs 169 crores in 1960-61 to Rs 135 crores in 1967-68 while exports to Latin America declined from Rs 26 crores in 1960-61 to Rs 5 crores in 1967-68 and to Africa from Rs 77 crores in 1960-61 to Rs 70 crores in 1967-68

Imports from the USA rose from Rs 516 crores in 1960-61 to Rs 771 crores in 1967-68, from eastern Europe from Rs 70 crores to Rs 203 crores and from Japan from Rs 96 crores to Rs 107 crores. Imports from the UK declined from Rs 342 crores in 1960-61 to Rs 158 crores in 1967-68, from the ECM countries from Rs 309 crores in 1960-61 to Rs 252 crores in 1967-68 and from Africa from Rs 111 crores to Rs 95 crores in 1967-68.

India has a payments surplus with countries from which it does not import foodgrains or edible oils, namely the UK, Japan and east European countries. The trade deficits have emerged with countries from which India has imported food. Our increasing emphasis on foodgrains output should help us in reducing the trade deficits considerably.

The document "Approach to the Fourth Five-Year Plan" assigns a crucial role to exports in the fourth Plan. If we have to pay for the imports that are required for economic development and also for the repayment of our debts, a progressively rising level of exports is essential.

We have now passed the stage when our imports had to be in terms of foodgrains and other agricultural raw materials. Also regarding machinery and equipment including heavy electrical equipment, we have expanded our industrial capacity substantially so that no more than Rs 200 crores worth of machinery and equipment may be imported on an annual basis even if industrialisation at a much faster rate is undertaken by us and industrial sophistication and diversification with most complex manufactures are undertaken. However, the need for additional imports of non-ferrous metals, complex machine tools, components and parts, scarce and critical parts, special steels and alloys and certain basic industrial raw materials such as sulphur, rock-phosphate, potassium salts, mercury, asbestos and other natural raw materials, not indigenously available, will continue to rise.

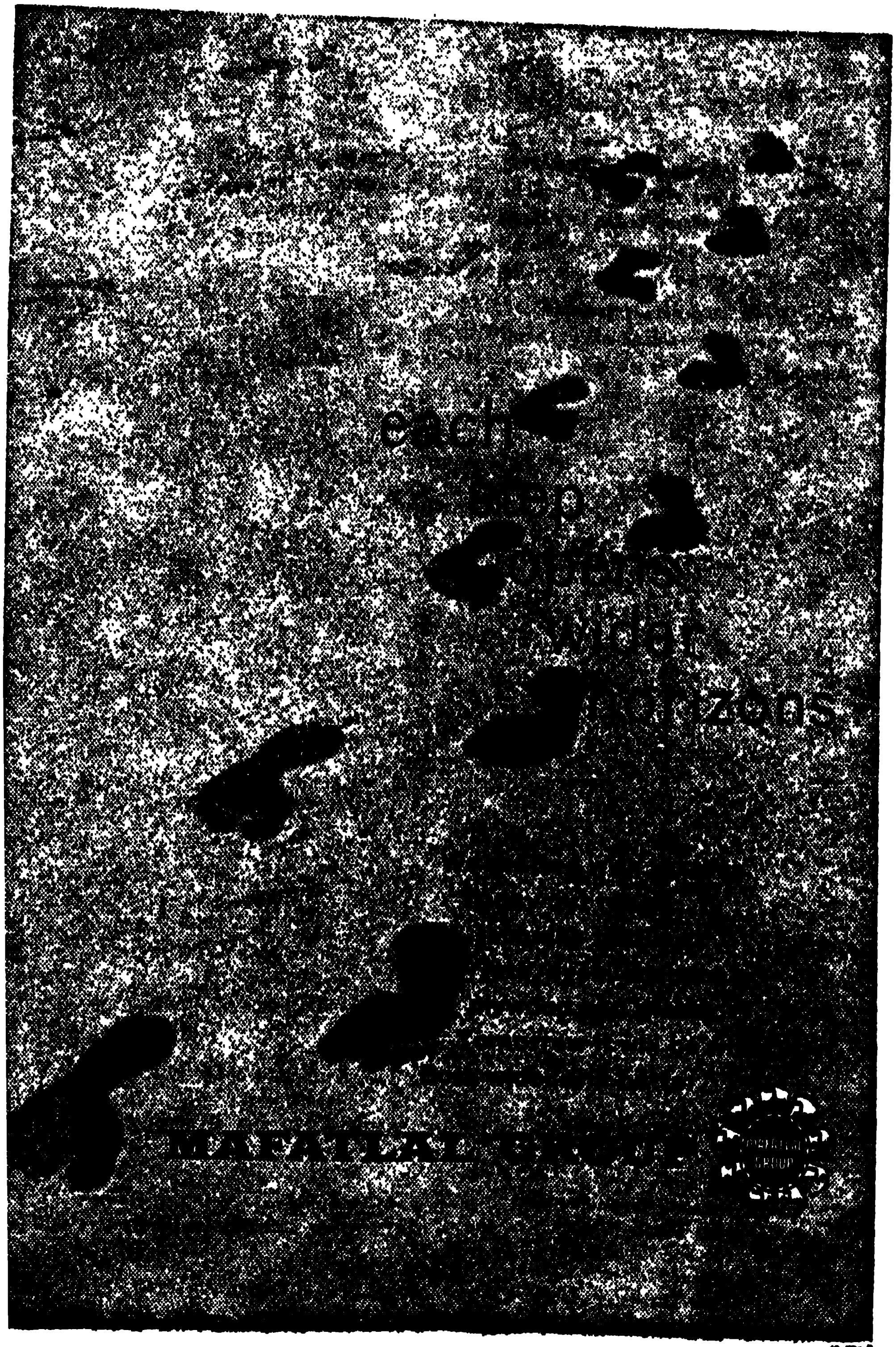
The draft outline of the fourth Plan estimated non-foodgrain imports to rise from US $2150 million (Rs 1612 crores) in 1968-69 to US $2600 million (Rs 1950 crores) in 1973-74. This shows the huge gap that will be continuously created in foreign exchange at the average rate of Rs 600 crores on account of the repayment and financing charges of our foreign debt liabilities which unfortunately have increased very much in terms of rupees due to devaluation.

Wishful Thinking

As against this, the estimates in the draft fourth Plan for exports indicate that as compared to exports of US $1800 million (Rs 1350 crores) in 1968-69, the level of exports would go up to US $2450 million (Rs 1840 crores) in 1973-74. Having got an intimate knowledge of the export trade, this figure seems to me wishful thinking because for such an increase in our exports—about Rs 100 crores increase every year—the intensive and vast production base, the necessary political and administrative will and the right type of economic atmosphere are nowhere to be seen. In my opinion, the right time to take a definite view on our export growth and its future projections will be the quarter April to June 1970 after we have watched and assessed the year 1969-70. In 1969-70, the new growth potentials for exports will have to be identified and strengthened. With very little capital formation and capital investment having taken place in industries in the last three years, and with price stability not yet attained by creation of buffer stocks or stockpiles, it is to be seen how the prices can be kept in check particularly of industrial raw materials and foodgrains. It is clear that unless production rises all round, capital formation takes place in an optimal way and costs of production of goods in general and of export goods in particular are brought down, exports will find it very difficult to pick up even with added cash incentives or import entitlements (the current import replenishments are only another name for the previous import entitlements on a slightly reduced scale).

It is therefore very necessary that instead of being complacent due to marginally favourable trends in our exports in 1968-69, the industry, business and government should take quick and right decisions in regard to the various steps and strategies required in respect of each important commodity with the sole objective of maximisation of exports on a sustained and expanding basis. We will have to take a big hand in developing all-round production of commodities and goods in the country as a whole. The highest priority will have to be accorded to agriculture. Increased and intensive production of agricultural and industrial goods is the key to expansion in exports.

Viewed in the light of long-term trends, 1968-69 looks to be a good year for exports. There is however no justification for the exuberant optimism of official handouts; all that this year's spurt has achieved is to recoup the losses suffered in the last three years. In the first nine months of the current fiscal year, exports in 1968-69 were about seven per cent above the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previous peak of 1964-65, but this gain needs to be set off against the very large increase in export capacity which has naturally taken place in the past four years and further accentuated by the recession in internal demand.

Looking ahead to the future, the point to watch out is not the total value of exports but its composition. In 15 out of the 21 traditional commodities which provide the great bulk of exchange earnings, the values realized per unit were lower than last year. Tea exports have failed to register gains in terms of larger earnings from exports even though the tea harvest was a bumper one last year. Jute exports are down for the third successive year, pointing to the harsh truth that India is being priced out of the world market.

What we have to realise is that a sharp devaluation such as the one we resorted to in 1966 makes the exports of traditional goods suffer the most. About three-fourths of our annual exports consist of those goods which were being exported, prior to devaluation, on their own at export prices in parity with internal prices without any significant help or subsidy. Naturally on devaluation the foreign buyers exerted tremendous pressure on us to get the maximum advantage by reducing the prices of these goods in terms of foreign currency because that is the plain meaning and result of any devaluation. However, in order to protect ourselves from this sudden loss, we had to impose heavy export duties on these goods. These export duties can never last long against the constant and powerful pressures from the stronger foreign markets. The net result is that we are forced to reduce and abolish these export duties as early as possible making us export more quantities of these goods (which constitute the biggest portion of our exports) and earn less of foreign currency because a large part of the benefit of removal of export duties passes on to the foreign buyers by a continuous reduction in unit values of these products in terms of foreign currencies. This is an inescapable consequence of a steep devaluation.

Thus, with the traditional items hit by falling prices, reliance upon new products for exports has to be correspondingly greater. Striking increases in the export of engineering goods (up by 100 per cent) steel (up by 25 per cent) and iron ore (up by 14 per cent) in 1968-69 were secured. In this field, the high-value bulk orders made a significant contribution. This should be sustained by correct policy measures backed by intensive production programmes.

Striking Increase

While the increase in exports in 1968-69 was striking in such items as engineering goods, steel, diamonds and precious stones, some of the important traditional industries, which contribute to the bulk of our export, are in a very depressed state. Therefore, there is imperative need to restore their exports and stimulate them by suitable action. One of the important steps seems to be to considerably reduce the export duties on such items as jute manufactures, tea, mica and manganese and iron ores. This alone can restore the competitive strength of these commodities in world markets. It is also very necessary that the production of these items should be accelerated and large investment finance should be provided to these basic export industries by immediate, specific steps taken in that regard. Modernisation of these industries as well as greater attention to the restoration of health to the cotton textile industry are clearly indicated. Much needs to be done about the development of cashew plantations. This is a very vital cash crop which has been showing signs of definite improvement in exports and more rapid increase in its export is possible if we can increase the area under cashew in different parts of our country which are ideally suited to this crop.

A somewhat different approach may have to be made to such items as oilcakes and black pepper. In the same manner, sustained and diversified cash assistance and import replenishments will be necessary to see that the increase in the export of steel, engineering goods and industrial machinery is well maintained and even expanded further by suitable liberal provisions for export finance.

Improvement of Quality

One of the most important present-day problems which will also continue to face us in the years to come will be the need for improvement in quality of our manufactures, introduction of new, and sophisticated designs of our products and their packaging to satisfy the demands of our customers. Systematic improvement in the quality of our products and their packaging has to become our foremost objective. In this field we may envisage a wide programme of research to find out the effectiveness of measures already adopted.

Competition in international trade makes it necessary for us to think in terms of more competition in the internal market. In order to face such competition abroad, we should be properly conditioned to work in a highly competitive economy at home. This raises the question of some of the controls and restrictions, which might be a stumbling block for developing a fully competitive economy within the country. I am glad that the governments both at the centre and in the states have

been taking a realistic view in this regard. With more competition and less restrictions and controls, our economy will become healthier. There has been some relaxation in controls lately which has helped production and exports. I hope that the area of selective decontrol will be progressively enlarged to enable enterprises to show their best and make Indian products cheaper and better through increasing competition.

The position regarding our balance of payments should be examined from the positive angle of creating conditions which would improve the balance of payments. Import substitution, import avoidance and import restriction are undoubtedly very important and urgent methods of reducing our import bill. However, these measures require judicious decisions so as not to hurt our economy by unthoughtful actions. We have to depend on selective imports for a period, if the present pace of development and pattern of planning are to be maintained. Therefore, we should carefully watch our import requirements and our outgoings on invisible accounts. At the same time, the question of essential imports requires full consideration. Import substitution has to be carried out with care so as not to impair the economy.

The Role of the Finance Commission

P. K. BHARGAVA

AN ESSENTIAL feature of a federal structure is the division of functions and resources between different layers of government. This division of functions and resources is based on the written provisions contained in the Constitution so that the problem of overlapping and conflict in the fiscal operations of different layers of government is minimized. To optimise the utilisation of resources and to ensure the maximum welfare of the federation, it is inevitable that the division of functions and resources should be based on scientific principles and on efficiency considerations. The Constitution of our country divides the functions and resources between the centre and the states in a manner that corresponds to scientific principles and efficiency considerations, so that what belongs to one government is placed in its sphere. Thus, the Government of India has been assigned subjects of national interest. In all, there are 97 items in the union list.(1) The state legislatures have exclusive authority to make law in regard to 66 entries.(2) Besides, there is a concurrent list consisting of 17 items.(3) The division of resources is also based on efficiency considerations. There is a clear bifurcation of tax jurisdiction between the central and state governments. In this manner an attempt has been made to avoid duplication in tax administration or competitive exploitation of the same tax.

Central Jurisdiction

The taxes under the legislative jurisdiction of the Government of India can be grouped into four categories.—

(A) Taxes whose entire proceeds are retained by the centre.(4)

(B) Taxes whose proceeds are shared with the states.(5)

(C) Taxes whose entire proceeds are assigned to the states.(6)

(D) Taxes to be collected and retained by the state government.(7)

The jurisdiction of the state government extends to land revenue, excise duties on alcoholic liquors, opium, hemp and other narcotic drugs, taxes on agricultural land and income, taxes on lands and buildings and mineral rights, taxes on sale and purchase of goods other than newspapers, stamp duties and registration fees, tolls and capitation taxes. Taxes on the following are also assigned to the states: Consumption and sale of electricity, advertisements other than those published in newspapers, entry of goods into local area, goods or passengers carried by road or inland waterways, vehicles, animals or boats, luxuries including entertainments, amusements, betting and gambling, employment, professions, trades and callings. There is also a provision that if a state or local authority was levying a tax (now in the union list) before the commencement of the Constitution, it can continue to do so until prohibited by Parliament. The residuary powers of taxation vest in the union authority. Broadly, this division of resources and functions is based on the Government of India Act, 1935, except that export duties are not shared with the states (fixed grants were given for 10 years to jute growing provinces to enable them to adjust their finances). In the case of taxes on trades, professions, callings and employment the annual limit of these taxes has been raised from Rs 50 (in the Government of India Act, 1935) to Rs 250. Further, some restrictions have been placed on the sale and purchase of goods and the Government of India has legislative jurisdiction on the sale and purchase of newspapers and the advertisements therein.

When functions and resources are allocated in the manner described above, the centre comes to possess elastic and productive sources of revenue, whereas the expanding social and development services fall in the sphere of the states. This gives rise to the problem of non-correspondence between functions and resources of the two layers of government.(8) As Sir Cecil H. Kish has also observed, "It would be more or less of an accident it the revenues appropriate to federal and provincial exploitation yielded precisely the sums needed for the discharge of federal and state functions."(9) In normal times the federal authority possesses the expanding revenue resources and inexpansive functions while the federating units are burdened with inflexible resources and expansive functions—the demand for which is of an expanding nature. This creates a serious fiscal gap in the revenue resources and the fiscal needs of the states; and the states cannot discharge their functions satisfactorily unless adequate resources are transferred to them from the centre. The transfer of spending power from the federal authority to federating units has become a normal feature of federal finance.

Balancing Factors

The fiscal gap in the revenue resources and requirements of the states, except war time, has been growing and stresses the need for balancing factors such as tax-sharing and grants-in-aid. In all federations, balancing factors have thus to play a role of paramount importance in bridging the fiscal gap. The Indian Constitution makes a provision for the appointment of a Finance Commission,(10) generally after every five years, on the basis of whose recommendations resources are transferred from the centre to the states. The Indian Finance Commission is one of the few commissions provided in the Constitution. It has no parallel in federal constitutions, except the Australian Commonwealth Grants Commission which examines the pleas of different states for assistance. It is significant to note that the Indian Finance Commission has to play the role of a wise man, a judge or an impartial body between the conflicting claims of different states on the one hand and centre on the other. The duties of the Finance Commission in India are enumerated in Article 280(3) of the Constitution and are as under:—

"(a) the distribution between the union and the states of the net proceeds of taxes which are to be, or may be divided between them.... and the allocation between the states of the respective shares of such proceeds;

(b) the principle which should govern the grants-in-aid

of the revenues of the states out of the consolidated fund of India;

(c) the continuance or modification of the terms of any agreement entered into by the Government of India with the government of any state specified in Part B of the First Schedule under clause (1) of Article 278 or under Article 306; and

(d) any other matter referred to the Commission by the President in the interest of sound finance."

In addition to the matters referred to under sub-clause (a), (b) and (c) above, the Finance Commission has been asked, under sub-clause (d), from time to time to make its recommendations on some other matters. The Second Finance Commission was asked to recommend the principle governing the distribution, under Article 269, of the proceeds in any financial year of estate duty in respect of property other than agricultural land; the modifications, if any, in the rates of repayment of the loans made to the various states by the Government of India between August 15, 1947, and March 31, 1956; the distribution of -additional duties of excise on mill-made textiles, sugar and tobacco in replacement of sales tax levied by the state governments; and the principle governing the distribution of the net proceeds of the tax on railway fares which was proposed to be levied by the Railway Passenger Fares Bill, 1957. The Third Finance Commission was asked to recommend whether any changes should be made governing the distribution of estate duty, the additional duties of excise and the tax on railway fares. The Fourth Finance Commission was asked to make recommendations in regard to the changes, if any, to be made in principles governing the distribution of estate duty, additional duties of excise, if there is any increase in the states' sales tax on such commodities or products over a limit to be specified by the Commission.

Transfer of Revenues

The methods that have been employed for transferring resources from the centre to the states are: tax-sharing devices, and assistance in the form of grants-in-aid and loans. Originally, only the income-tax was a shared tax. Since 1952-53, the states are given a share of the union excise duties. The states have also received a share of the estate duty and of the tax on railway passenger fares (since 1961-62 grants-in-aid are given in lieu of it). As regards grants-in-aid, the states were given assistance for post-war development schemes. Such assistance was discontinued from 1950-51 except for the Grow More Food Scheme and certain special schemes such as adult (social) education and teachers' training schemes. The states have secured large funds from the centre in the form of loans which are given for a variety of purposes.

(a) **Income Tax.**

Under Section 138 of the Government of India Act, 1935 the provinces were given a share of net proceeds of taxes on income other than agricultural income, but excluding corporation tax or a central surcharge, minus the portion attributable to taxes on federal emoluments and to Chief Commissioners' Provinces, minus the share of cost of collection. Sir Otto Niemeyer recommended that the share of net proceeds of income-tax to the provinces should be 50 per cent. In his scheme the distribution between the states inter se was based partly on residence and partly on population. The provincial shares were refixed from August 15, 1947 to March 31, 1950 and were altered under the Deshmukh Award which was applicable from 1950-51 and was to remain in force till the Finance Commission, to be set up under Article 230(3), made its recommendations.

The Expert Committee (1947) on the Financial Provisions of the Constitution, in regard to distribution of income-tax between the centre and the states, recommended that, "While the net proceeds attributable to Chief Commissioners' Provinces should be retained wholly by the centre, the other reservations should go, and that the provinces should not get less than 60 per cent of the net proceeds of all income-tax including the net proceeds of corporation tax and taxes on federal emoluments".(12) The recommendations of the Expert Committee were not incorporated in the Constitution.

The First Finance Commission raised the states' share from 50 per cent to 55 per cent of the 'divisible pool'.(13) It further recommended that the states' share should be distributed among them at the rate of 20 per cent on the basis of collection and 80 per cent on the basis of their population. The collection basis affected adversely the thickly populated states and/or relatively backward states such as Uttar Pradesh that had large population but collected small amount of income-tax. The collection basis was not justified because economic allegiance of tax proceeds cannot be allocated to the place where it is collected.

The Second Finance Commission raised the states' share from 55 per cent to 60 per cent of the net proceeds of income-tax. It altered the basis of distribution of the states' share in favour of the thickly populated states and/or relatively poorer states. It recommended that the distribution of the states' share be 10 per cent on the basis of collection and 90 per cent on the basis of population.

The Third Finance Commission raised the states' share from 60 per cent to 66⅔ per cent of the 'divisible pool' but unfortunately it gave greater weightage to collection and restored the formula of the First Finance Commission. The

Commission was of the opinion that, "taking all these considerations into account, we feel that it would be fair and equitable to restore the formula of the First Commission for the distribution of income-tax, namely, 80 per cent on the basis of population and 20 per cent on the basis of collection."(14) While the Fourth Finance Commission endorsed the formula laid down by the First and the Third Finance Commissions yet it raised the states' share from 66⅔ per cent of the 'divisible pool' to 75 per cent. There is a fear that any increase in the states' share beyond 75 per cent of the 'divisible pool' will adversely affect the centre's interest, in collecting income-tax, to the detriment of the states. It is hoped that the Fifth Finance Commission will take account of this fact in making its recommendations, though in its interim report it has recommended the continuance of the existing basis for the year 1969-70.

It is surprising that the successive Finance Commissions have relied on the same basis of distribution, viz., population and collection and have given no weightage to per capita income indices, though the per capita income figures for different states are now available.(15) The Fourth Finance Commission could have used per capita income figures as a basis of distribution as these indices are satisfactory indicators of the relative poverty and backwardness of states and it is fair that they should form a basis of transfer of resources from the centre to the states.

States Affected

The reform in company taxation introduced in 1959-60 reduced the 'divisible pool' of income-tax and affected the states' fiscal strength adversely. Formerly joint stock companies had to pay a corporation tax in addition to the income-tax. The income-tax paid by these companies was attributable to the dividend received by the shareholders. Accordingly the dividend received by the shareholders was increased by the amount of income-tax paid by these companies on that part of income. This procedure of allowing a tax credit to a shareholder was known as "grossing" and the income-tax paid by the companies formed a part of the 'divisible pool'. Under the revised scheme the grossing up procedure was given up and in addition to the taxes paid by companies they had to deduct income-tax from the dividends paid by them. Thus under the revised scheme company profits were subject to a tax non-refundable on corporate profits. The tax proceeds thus did not form part of the 'divisible pool' as the corporation tax is exclusively assigned to the union government. To compensate the states the Government of India decided in consultation with the state governments to give special grants to the states till the question was examined by the next Finance Commission. Though the states were thus compensated they were deprived of an elastic and expanding source of revenue. The revenue from corporation tax increased from Rs 111.05 crores in 1960-61 to Rs 350.00 crores in 1967-68 (Budget) or by 215 per cent. During the same period the revenue from income-tax (including states' share) increased from Rs 167.38 crores to Rs 290.00 crores or by 73 per cent.(16) The Third Finance Commission raised the states' share from 60 per cent to 66⅔ per cent of the 'divisible pool' and was raised to 75 per cent by the Fourth Finance Commission but even this increased share was not an adequate compensation to the states for the fiscal loss they suffered as a result of reform in company taxation. I am of the opinion that it is still better late than never that the states' share in the union duties of excise (divisible between the centre and the states) be raised from 20 per cent to 30 per cent to compensate the states for the loss they suffered as a result of the reform in company taxation.

(b) **Union Excise Duties.**

It is not mandatory on the part of the union government to share the excise duties with the states. The Constitution makes no specific provision in this respect and it is left to Parliament to decide if any excise duties are to be shared with the states and, if so, the percentage and basis of its distribution is to be determined by Parliament by law.

Excise duties have been shared between the centre and the states from April 1, 1952. The First Finance Commission observed that, "taking all these factors into account we have come to the conclusion that duties on tobacco (including cigarettes, cigars, etc), matches and vegetable products are the most suitable for distribution, we recommend that 40 per cent of the net proceeds of these duties be allocated to the states".(17) The share of each state, the Commission recommended, was to be determined on the basis of population. The Second Finance Commission reduced the states' share from 40 per cent to 25 per cent but added five more items, namely, sugar, tea, cotton, paper and vegetable non-essential oils, to the existing list of union excise duties shared with the states. As regards the basis of distribution between the states, inter se the Commission concluded that, "on the whole, we feel that it is preferable to continue population as the sole basis of distribution", but it recommended that, "90 per cent of the states' share of the divisible union excise duties should be distributed on the basis of population, the balance of 10 per cent being used for adjustments."(18)

The Third Finance Commission enlarged the list of union excise duties to 35 commodities, the net proceeds of which were to be distributed between the centre and the states. The Commission recommended that the states' share be fixed at 20 per cent of the net proceeds of excise duties of these commodities and endorsed the view of the first two commissions that population should be the main basis of distribution but suggested that, "the relative financial weakness of the states, the disparity in the levels of development reached, the percentage of scheduled castes and tribes and backward classes in their population, etc., should also be taken into account in determining the share to be allocated to each state individually".(19) The Fourth Finance Commission endorsed the view of the Third Finance Commission regarding the states' share in the net proceeds from union excise duties but it suggested that the states should be entitled to get this share out of net proceeds of duties of excise on all commodities

except regulatory duties, special excises, duties and cesses earmarked for special purposes.(20) The Fourth Finance Commission was so generous to the states that it suggested sharing of even the special duties of excise introduced in 1963 in the context of the national emergency exclusively for union purposes, but it felt that, "on practical considerations, however, we think that it would be desirable to keep the proceeds of special duties of excise outside the sharing scheme."(21) In prescribing the basis of distribution of excise revenue between the states inter se the Commission differed from the Third Finance Commission that had suggested 'relative financial weakness' along with population as the basis of distribution and it emphasized that, "we distinguish between economic and social backwardness of a state and its financial weakness."(22) In estimating the economic and social backwardness of a state, the Commission took into consideration such factors as per capita value added by manufacture, percentage of workers to the total population, population per hospital bed, percentage of scheduled castes and tribes to total population, etc.

Unsatisfactory Criterion

Successive Finance Commissions have placed major emphasis on population as a criterion for determining the share of individual states in the share of union excise duties. This is not a very satisfactory criterion for distribution of excise revenue among the various states. Population has nothing to do with the intrinsic nature of excise duties. Excise duties are imposed on production, though their incidence is generally on the consumers of the taxed commodities. The population basis is unfair to those states that have a small population but are big producers of excisable commodities. It may, therefore, be advisable that production and consumption of these commodities may also be taken into account in determining the share of each state in union excise duties. It may be stated here that the Fifth Finance Commission, in its interim report, has not suggested any change for the year 1969-70 in the existing basis.

Since 1957 sales tax on mill-made textiles, sugar and tobacco (including manufactured tobacco) was replaced by additional duties of excise to be collected by the union government together with the basic union excise duty on these commodities. The Second Finance Commission was asked to recommend the principle on the basis of which the proceeds from additional duties of excise should be distributed among the states. The Commission recommended that the states should be given a guaranteed amount which they derived from sales tax on these commodities in 1956-57 and the remainder of the net proceeds, if any, should be distributed in the percentage ratios prescribed by the Commission. The state governments have opposed this change; they are no longer ready for any increase in the list of additional excise duties which would reduce their sphere of sales tax. Whatever may be the justification for the centralisation of these duties, the fact remains that the states have been deprived of a dependable and elastic source of revenue.

(c) Estate Duty

Under Article 269 of the Constitution, estate duty on property, other than agricultural land, is to be levied and collected by the union government but the entire proceeds, except the share attributable to union territories, have to be distributed amongst the states on the basis of principles as may be formulated by Parliament by law. Estate duty was levied in 1953. So long as the recommendations of the Finance Commission were not made, proceeds were distributed amongst the states in the same ratio as the states' share of the 'divisible pool' of income-tax. The total collections of estate duty amounted to Rs 4.75 crores up to March 31, 1957. The matter was referred to the Second Finance Commission to prescribe the basis of its distribution amongst the states. The Commission recommended that, "Estate duty being a tax on property, the basis of location would be the most appropriate principle of distribution."(23) However, the Commission felt that this principle could not be applied to movable property which may be included in an estate. Therefore it recommended that one per cent of the net proceeds be retained by the union as proceeds attributable to the union territories and the balance be apportioned between immovable property and other property in the ratio of the gross value of all such property brought under assessment in that year. The sum apportioned to immovable property be distributed on the basis of gross value of all such property located in a state, while the sum apportioned to movable property be distributed on the basis of population. The Commission further recommended that the distribution, with respect to collections up to March 31, 1957, be legally ratified and the new formula be applied from the year 1957-58.

The Third Finance Commission agreed with the formula of the Second Finance Commission but in recommending the distribution of duty attributable to movable property it adopted the 1961 census figures. The Fourth Finance Commission also did not suggest any change in the formula laid down by the Second Finance Commission, except that it suggested that the share of the union territories be raised from one to two per cent of the net proceeds of estate duty. The Fifth Finance Commission has, in its interim report for 1969-70, increased the share of the union territories from two to three per cent but has not suggested any other change in the principles governing the distribution of the duty.

(d) Tax on Railway Passenger Fares

A tax on railway passenger fares was introduced in the year 1957-58. The Second Finance Commission was requested to suggest the principle on the basis of which the net proceeds of this tax should be distributed among the states. The

Commission recommended that each state should get a share which may be as nearly equal as possible to the net proceeds on account of the actual travel on railways within its limits. In view of the fact that the states should know in advance what is coming to them, the Commission recommended that after deducting one-fourth of the net proceeds attributable to union territories each state's share should be fixed on the basis of recent earnings and expenses and these percentages will be fixed for five years from 1957-58.

The tax on railway passenger fares was merged in passenger fares from April 1, 1961 on the recommendation of the Railway Convention Committee (1960). This step was taken to avoid large work involved in separate collection and accounting of the tax. This simplification involved a saving of about eight lakhs of rupees per annum. Since 1961-62, the Railways are giving a fixed grant of Rs 12.50 crores to be distributed among the states on the recommendations of the Finance Commission. The Third Finance Commission recommended that this sum should be distributed among the states broadly on the same footing as before. In 1960-61 the states' share, of the tax proceeds amounted to Rs 13.79 crores which was 10.4 per cent of the passenger earnings of the Railways. Since 1961-62 the states have received a fixed grant of Rs 12.50 crores per annum which was 5.6 per cent of the passenger earnings of the Railways in 1965-66 (Budget). To compensate the states the Railway Convention Committee (1965) recommended that the Railways should provide one per cent of the capital invested up to the end of March 31, 1964 instead of the fixed amount of Rs 12.50 crores per year. This recommendation was accepted by the Government of India and out of the states' share thus determined Rs 6.25 crores are paid to the states in lieu of the passenger fares' tax and the balance is given to them to provide for their portion of the resources required for financing repair of level crossings, overbridges and such other safety works. Both the amounts, however, are divided among the different states on the basis of the formula recommended by the Finance Commission.

Fair Compensation

In 1966-67 (Budget) the Railways paid Rs 17.67 crores to the states: Rs 6.25 crores being payment in lieu of tax on railway fares and the balance to assist the states for railway safety works. Payment of Rs 17.67 crores formed 7.7 per cent of passenger earnings whereas the states received 10.4 per cent of passenger earnings in 1960-61, the last year in which the tax was imposed. So even under the revised arrangement the states are receiving a lower percentage of passenger earnings. It is, therefore, suggested that in fairness to states the compensation payable to them in lieu of the tax should be fixed at 10.4 per cent of passenger earnings—which is the same percentage share of passenger earnings which they received in 1960-61. The Fifth Finance Commission has not recommended any change for 1969-70 in the existing basis of compensation.

(e) Grants-In-Aid

Grants-in-aid from the federal government to federating units is provided for a variety of purposes and such assistance has become an essential feature of federal finance. It has been rightly emphasized that even in a rich and highly developed country such as the USA grants-in-aid have come to occupy such an important place that, "in some instances, services were introduced which would not have been undertaken without federal aid. In other cases, it was stated that the functions were begun sooner and were done more extensively than would otherwise have been the case."(24) It has also been emphasized that in the USA "the federal government has been providing incentives for the states to take on new functions, mainly in the field of social welfare."(25) In developing federations grants-in-aid are still important because without these the state governments may resort to more and more regressive taxation or may give up many essential services which may be vital for economic development or may be desirable for the integrity of the federal structure.

Grants-in-aid may take various forms: conditional and unconditional, matching and equalisation, plan and non-plan, special and general purpose, etc. Each of these has its advantages(26) and disadvantages and choice of the form in which grants are given should be based on the objectives to be achieved. In a poor federation where the objective is to secure a 'national minimum' in the field of various social and development services in different states, conditional and equalisation grants may be preferred over unconditional grants. Such grants are preferable in a poor federation because in their absence "the recipient (low income) states face a wide range of alternative changes which can be made within the state-local fiscal system. The same level of public services may be retained, allowing state-local taxes to be reduced by the amount of the grant...... the normal situation would be some combination of the reduction and expenditure expansion."(27) In a situation where fiscal autonomy is the main concern "majority opinion would favour unconditional over conditional grants on the ground that the latter do not respect the sovereignty of the 'consumer' or of the spender."(28) It is desirable that due to changing situation in a poor federation, a flexible approach should be adopted in the system of grants-in-aid and "the grant structure should be subject to periodical review, with adjustment necessary, say at five-yearly intervals."(29)

The Finance Commission recommends grants-in-aid of revenues under Article 275(1) of the Constitution. Grants-in-aid of capital expenditure and loans are outside the scope of the Finance Commission. Grants-in-aid which are given under Article 282 of the Constitution for any public purpose have been used for giving sizable Plan grants which are outside the scope of the Finance Commission. The First Finance Commission in prescribing grants-in-aid of revenues to the states based its recommendations primarily on the budgetary needs of the states, though the Commission had mentioned other

factors such as tax effort, economy in expenditure, standard of social services, special obligations and financial needs of the states. The Commission laid too much emphasis on budgetary equilibrium. This was not a scientific criterion for giving grants-in-aid to states because even a starving man may balance his budget. The considerations of need based on poverty and per capita income indices should be given a due place in giving grants to states. It is discouraging that successive Finance Commissions have also neglected this aspect in recommending grants-in-aid to the states.

The First Finance Commission had recommended grants-in-aid for primary education to eight states.(30) In giving these grants the Commission based its recommendations on the proportion of school-going children between the ages of six and 11 years. The Second Finance Commission did not favour such grants since the Planning Commission provided for the expansion of social services but in recommending the grants-in-aid of revenues to states, the Commission followed the formula prescribed by the First Finance Commission and it recommended grants-in-aid to eleven states.(31)

Unconditional Grants

The Third Finance Commission observed that no reliable data were available for determining the needs of the states, their tax potential, economy and the efficiency of their administration. The Commission suggested that the total grants-in-aid to states should be of an amount, along with any surplus on revenue account, so as to cover 75 per cent of the revenue component of states' Plans. The Member Secretary, Mr G. R. Kamat, disagreed from the Commission's recommendations in this regard on the ground that grants for the revenue component of the Plan are made available under Article 282 of the Constitution and they are tied to particular schemes with a view to promoting programmes of planned economic development. The grants given by the Finance Commission are completely unconditional grants and if these grants are given for Plan purposes, they will weaken the machinery giving such grants. Another objection put forward by him was that if these grants are given for Plan purposes, it may slacken the states' tax effort. Hence the Government of India did not accept this recommendation of the Finance Commission.

The Fourth Finance Commission recommended grants-in-aid on the basis of non-plan revenue gap of the states. After assessing the revenue receipts and non-plan expenditure and the amounts accruing to states as their share of various taxes and duties, it found that ten states(32) had revenue deficits. Accordingly, the Commission recommended a grant of Rs 121.83 crores per annum to these states during five years commencing from April 1, 1966. In assessing the non-plan revenue gap of the states, the Commission had taken into account the increase in financial burden of the states due to revised dearness allowance or revised scales of pay. The Commission had agreed that it will consider the claims of the states in this regard provided the necessary details were supplied to it before July 31, 1965. Andhra Pradesh, Mysore and Uttar Pradesh had supplied necessary details, but the Commission could not take them into account in framing its recommendations about grants-in-aid to states. Accordingly, the Government of India requested Mr D. G. Karve (who was a member of the Commission) to assess the additional liabilities of these states that had supplied the necessary information regarding the additional expenditure due to revised pay scales, dearness allowance to employees of the state governments and local bodies and school teachers and to take them into account in recommending grants-in-aid to these states. On the basis of his recommendation the annual grants-in-aid for Andhra Pradesh and Mysore were increased by Rs 6.29 crores and Rs 2.53 crores respectively, during the five years commencing from April 1, 1966. Uttar Pradesh also qualified for a grant of Rs 9.85 crores per annum.

It must be emphasized here that the Finance Commission has not succeeded in evolving a satisfactory formula for recommending grants-in-aid to the states. The Commission has thus failed in fulfilling the intention of Article 280 (3) (b) of the Indian Constitution. One can only hope that the Fifth Finance Commission will evolve a satisfactory principle which should govern the grants-in-aid from the centre to the states and will make use of per capita income indices and other need considerations in recommending grants-in-aid to the states. It is still better late than never that a permanent organisation be appointed in the Ministry of Finance, as recommended by the Fourth Finance Commission, for making continuous study on various matters to provide necessary information required by the Finance Commission. In its interim report, the Fifth Finance Commission has suggested for 1969-70 the payment of total grants-in-aid of Rs 176.81 crores to 13 states, involving an additional transfer of Rs 36.20 crores. This is a provisional recommendation and the payments are subject to readjustments on the basis of such recommendations as may be made in the Commission's final report.

(f) Loans from the Centre

The development process has made the states highly dependent on the centre. For financing development expenditure the states have relied heavily on loan finance. The public debt of the state governments in India increased from Rs 445 crores at the end of March 1952 to Rs 5,381 crores at the end of March 1966—a rise of Rs 4,936 crores or 1109 per cent over the period of fifteen years. During the same period the states' indebtedness to the centre increased from Rs 239 crores to Rs 4,094 crores or by 1613 per cent. The increasing states' indebtedness

to the centre is not a healthy development in federal finance because loans and planning grants are outside the scope of the recommendations of the Finance Commission.

The total resources transferred from the centre to the states increased from Rs 1,389.70 crores in the first Plan to Rs 2,833.70 crores in the second Plan and further to Rs 5,600.50 crores in the third Plan.(33) The states' share in the divisible taxes and duties increased from Rs 352.50 crores in the first Plan to Rs 710.10 crores in the second Plan and to Rs 1,196.00 crores in the third Plan.(33) The total grants increased from Rs 214.80 crores in the first Plan to Rs 700.40 crores in the second Plan and to Rs 1,303.10 crores in the third Plan.(34) The increase in transfers in the form of loans was more pronounced. It increased from Rs 822.40 crores in the first Plan to Rs 1,423.20 crores in the second Plan and to Rs 3,101.40 crores in the third Plan.(34) The total resources transferred from the centre to the states formed 41.4 per cent of the states' total expenditure (Revenue Account and Capital Account) in the first Plan. This percentage increased to 48.5 in the second Plan and further to 52.2 in the third Plan. The above analysis amply demonstrates that the states' fiscal dependence on the centre has been increasing rapidly.(35) There is a fear that we may develop a Leviathan centre with responsibility for providing finance but no responsibility for executing projects.

Side-tracking the Commission

The Finance Commission has been instrumental in transferring resources from the centre to the states but it is unfortunate that the Commission controls only a small portion of the total transfers. During the first three five-year Plans more than 65 per cent of the total transfers were outside the purview of the Finance Commission.(36) The continuance of this tendency will greatly undermine the importance of the Finance Commission.

The receipts from the divisible taxes and duties are based on the recommendations of the Finance Commission and are given in aid of general revenues. They do not, therefore, compromise the fiscal dependence of the states. The states' share in the divisible taxes and duties formed 25 per cent of the total resources transferred to them from the centre in the first Plan but this percentage declined to 21 in the third Plan. The declining percentage of divisible taxes and duties and the increasing dependence of the states on grants and loans is not a healthy development in federal finance. I therefore, recommend that the Finance Commission should be entrusted with the responsibility of recommending grants and loan assistance to the states so that the allocation of these funds is removed outside the arena of political bargaining and the states do not feel like subservient financial authorities before the centre. Alternatively, a loan council may be formed which should raise loans for the union and the state governments and distribute the proceeds between the Government of India and different states on the basis of their relative needs with a proper emphasis on rapid development of relatively backward states.

The Indian Finance Commission in its present set-up has failed to play its due role for two reasons. Firstly, the Finance Commission being an ad hoc body, each time with new personnel and research staff, has not been able to learn much from its experience as a permanent commission would do. It would be in keeping with the things that the Finance Commission be made a permanent body. Secondly, the emergence of Planning Commission has created much confustion in the sphere of federal finance. There is overlapping in the functions of the Finance Commission and the Planning Commission. The Planning Commission was appointed by a resolution of the Government of India but it has tended to become a 'supreme' authority. It has encouraged centralisation of policies even in matters assigned exclusively to the states and in which the states were expected to have full initiative in the devlopment process. The states have tended to become subservient to the Planning Commission because the finances for states' plans are provided by the centre on the basis of the recommendations of the Planning Commission. The Planning Commission also determines the central plans, whereby the Union Government directly undertakes development projects in the states.

The allocation of these projects between the different states and of central assistance for state plans is not based on fair principles. The Planning Commission is not, like the Finance Commission, a semi-judicial authority. Its decisions are often influenced by the political pressures of the states and the bargaining capacity of their chief ministers. The result has been that in the development process some states such as Bihar and Uttar Pradesh have relatively suffered. The Second Finance Commission and thereafter the Third Finance Commission had, therefore, recommended that the scope and functions of the Finance Commission be enlarged "to embrace total financial assistance to be afforded to the states, whether by way of loans or devolution of revenues, to enable them both to balance their normal budgets and to fulfil the targets of the Plans".(37) However, the eventual aims should be 'to transform the Planning Commission into Finance Commission at the appropriate time.'(38)

REFERENCES

1. It comprises defence, foreign affairs, communications, currency and coinage, banking and insurance, customs duties, regulation of oilseeds and minerals, audit of accounts of union and states, inter-state and international trade and commerce, navigation, aviation and national high-

ways, posts, telegraphs and telephones, broadcasting, etc.

2. It includes education, medical and public health, roads and bridges, agriculture and irrigation, forests and fisheries, trade and industry, etc.

3. It comprises subjects of common interest such as planning and special security, labour welfare, industrial disputes, electricity, newspapers and banks, etc., in which both Parliament and state legislatures can make laws.

4. These are corporation tax, customs duties, taxes on capital other than agricultural land and surcharges on taxes in categories (B) and (C).

5. These include taxes on income (other than agricultural income) and excise duties, except those assigned to states.

6. These are succession and estate duties on property other than agricultural land, terminal taxes on goods and passengers by rail, sea or air, taxes on railway fares and freights, taxes other than stamp duties on transactions, on stock exchanges and public markets and taxes on the sale and purchase of newspapers and the advertisements therein.

7. These include stamp duties mentioned in the union list, taxes on inter-state sales and duties of excise on medical and toilet preparations containing alcohol, opium or such drugs.

8. See Anthony Scott, The Economic Goals of Federal Finance, 'Public Finance', Vol. XIX, No. 3, 1964, Pp. 241-85.

9. Sir Cecil H. Kish in his foreword to 'The Principles and Problems of Federal Finance', by B. P. Adarkar, p. xii.

10. The First Finance Commission was appointed in November, 1951. The Second Finance Commission was appointed in June, 1956. The Third Finance Commission was appointed in December, 1960 and the Fourth Finance Commission was appointed in May, 1964. It is gratifying that almost all the recommendations of these Commissions were accepted by Parliament.

11. The distinction between part A and B states was abolished with the reorganisation of states in 1956; sub-clause (c) has been omitted by the Constitution (Seventh Amendment) Act 1956 and sub-clause (d) has now been designated as (c).

12. Report, para 38.

13. Divisible pool of income-tax=total revenue from taxes on income other than corporation tax excluding central surcharge, miscellaneous receipts and advance payments 'minus' cost of collection and the portion attributable to union emoluments and union territories.

14. 'Report of the Finance Commission', 1961, p. 18.

15. See National Council of Applied Economic Research Distribution of National Income by States, 1960-61.

16. In this connection the Fourth Finance Commission observed that, "the collections from the corporation tax have increased by well over 600 per cent in the course of the last 12 years, the corresponding growth in the divisible pool of income-tax was less than 50 per cent". 'Report', p. 17.

17. 'Report of the Finance Commission', 1952, p. 82.

18. 'Report of the Finance Commission', 1957, p. 44.

19. 'Report of the Finance Commission', 1961, p. 22.

20. The special duties of excise were introduced in 1963 and the present position is that the revenue from these duties is not shared with the states. The regulatory duties of excise were introduced for the first time in 1961. Their imposition is essentially regulatory. Cesses or additional excise duties on items such as coal, oil-seeds, iron-ore, etc., are imposed with the object of making these funds available for purposes earmarked in the relative legislations pertaining to each of these levies.

21. 'Report of the Finance Commission', 1965, p. 23.

22. Ibid, p. 28.

23. Report of the Finance Commission, 1957, p. 51.

24. Roger H. Wells, (ed), 'Impact of Federal Grants-in-Aid on the Political Structure and Local Government' (A Report on twenty-five states submitted to the Commission on Inter Governmental Relations) 1954, p. 12.

25. 'The Economist', July 9, 1955, p. 126.

26. See P. P. Agarwal, 'The System of Grants-in-Aid in India', 1959, pp. 6-7.

27. James M. Buchanan, Federal Grants and Resource Allocation, 'The Journal of Political Economy', Vol. LX, No. 3, June 1952, Pp 210-11.

28. Albert Breton, A Theory of Government Grants, 'The Canadian Journal of Economics and Political Science, Vol. No. 2, p. 175.

29. 'Federalism and Economic Growth in Underdeveloped Countries' (A Symposium), 1961, p. 167.

30. These were— Bihar, Madhya Pradesh, Hyderabad, Rajasthan, Orissa, Punjab, Madhya Bharat and P.E.P.S.U.

31. These were— Andhra Pradesh, Assam, Bihar, Kerala,

Madhya Pradesh, Mysore, Orissa, Punjab, Rajasthan, West Bengal and Jammu & Kashmir.

32. These were— Andhra Pradesh, Assam, Jammu & Kashmir, Kerala, Madhya Pradesh, Tamil Nadu, Mysore, Nagaland, Orissa and Rajasthan.

33. Reserve Bank of India Bulletin, August 1967, p. 1066.

34. Ibid.

35. See the author's article on Federal Finance: Need to Increase States' Resources, 'Capital', November 2, 1967, Pp. 860-62.

36. For a detailed discussion see D. T. Lakdawala, The four Finance Commissions in India, 'The Indian Economic Journal', Vol XIII, No. 4, January-March, 1966, p. 503.

37. Report of the Finance Commission, 1961, Pp. 35-36.

38. Ibid, p. 36.

A History of European Monetary Co-operation

JOSSLEYN HENNESSY

I

FROM 1920 TO 1960

CO-OPERATION AMONG European official monetary institutions, to limit flows of foreign exchange to volumes commensurate with their reserves and to maintain confidence in exchange rates, first emerged in the 1920s, since when it has usually involved American participation, more often than not on American initiatives.

The most notable exception was the European Payments Union, through which the countries of western Europe, on moving to multilateral trade and payments by establishing the OEEC in 1948, financed their enlarged payments to one another through centralised gold payments and credits. The world dollar shortage, and the paucity of reserves of most European countries in the early postwar years, made some credit-creating mechanism (and discrimination against US and Canadian dollars) essential. But in 1958, when the dollar shortage ended and European recovery was regarded as complete, the EPU was wound up, and the member countries went over to international currency convertibility under International Monetary Fund rules.

The successor to the EPU, the European Monetary Agreement (EMA), continued the principle of exchange rate guarantees for holdings by member central banks of each others currencies. This established, in the face of resistance from Britain, that official institutions will not readily hold all currencies without guarantees against devaluation. By 1963, Britain, prompted by the jealousies of sterling area authorities pressing for guarantees for their own sterling balances, succeeded in winning agreement to limit the exchange guarantees on ordinary official holdings of foreign exchange in the EMA to working balances; the total for sterling was fixed at £11.25 million. By 1965, however, Britain was obliged to ask most of the EMA countries to hold large amounts of sterling as emergency support for the £ and compelled to guarantee them in full.

Two Types Emerge

Two kinds of official monetary co-operation have emerged in the 1960s: short-term provision of funds between central banks to offset hot money movements, and discussions to concert policies on international liquidity and balance-of-payments problems. Collaboration on policy is essentially based on Paris, through the OECD and the so-called Paris Club (Group of Ten) which, despite its name, meets wherever its members choose. Collaboration between central bankers is based at Basle and increasingly uses technical facilities provided by the Bank for International Settlements (BIS).

Postwar co-operation among central banks to contain hot money flows began in 1961, when emergency credits were agreed among the bank governors meeting at Basle to cope with a run on sterling. Previously, cross-frontier flows had been controlled by conventional techniques (such as increases in the Bank rate), and of course in the early postwar years they were limited by exchange controls and by the comparatively small scale of private international financial transactions.

But in March, 1961—when revaluations of the DM and the guilder by five per cent were regarded in exchange markets as so inadequate (in view of Britain's huge payments deficit in 1960 and West Germany's even larger surplus) as to risk further changes in exchange rates—the movement of short-term funds out of sterling reached unforeseen proportions. Without political intervention, credits were quickly agreed, drawings on which totalled $900 million.

The next time that such facilities were called on in large volume was November, 1964, when Lord Cromer arranged a $3,000 million credit line for sterling by telephone, this time including a large swap credit from the New York Federal Reserve Bank. Not all the $3,000 million was used.

In the summer of 1965, when funds again left London, a $1,000 million credit from the "Basle Club" was lined up, in addition to Britain's swap credit with the Federal Reserve which by then amounted to $750 million. By this time, the New York Federal Reserve had developed a network of swap lines through bilateral agreements with all the major central banks.

New Credit Line

In June, 1966, when another run on sterling began, a new credit line was put together (the previous year's had been repaid during the winter), the use of which was to be limited, through retrospective analysis of the figures, to changes in Britain's sterling liabilities. As a result, initial drawing requirements fell wholly on swap lines with the New York Federal Reserve Bank, supplemented by unrevealed facilities with the US Treasury until the British authorities could produce figures to satisfy the Basle conditions. Although the USA is represented at Basle meetings only as an "observer", the New York Federal Reserve Bank participated in the Basle credit to the extent of $150 million, in addition to its bilateral swap facility. France participated up to $100 million but refused to endorse the conditions linking the drawings to changes in sterling balances. The total of the package was $1,000 million.

Britain's drawing on this package was repaid in the spring of 1967, but it was fully drawn soon after sterling was devalued in November. Additional credits were provided, without the precise Basle conditions, on the initiative of the finance ministers of the Group of Ten, amounting to $1,400 million, an amount increased at the Washington monetary conference in March, 1968. In all, Britain's use of her various credit lines exceeded $5,000 million by the end of June, 1968.

Until the French 1968 financial crisis, only the UK had used the Basle central bank credit facilities. The USA had of course been a debtor to European central banks on various occasions, but only through New York Federal Reserve Bank swap drawings and other bilateral arrangements, never through the European "Basle Club". When the franc became exposed

as the funds are put up by sterling area countries themselves, and in so far as these countries are induced by the exchange rate guarantee to hold more sterling in the face of exchange rate speculation, the arrangement also tends to shift the burden of supporting sterling from the Basle group countries to the members of the sterling area.

The European Economic Community has attempted little in monetary co-operation in the sense of the term used here. Treaty Article 108 provides for mutual aid subject to vetting. The first occasion to use this clause arose when Italy ran into a payments crisis in 1964. The USA quickly came to Italy's aid while Brussels was still trying to decide on conditions, and many observers concluded that the EEC's arrangements for monetary co-operation were not the most appropriate even for its own members. More fundamentally, Article 103 has not been needed, because, whatever the vicissitudes of the payments of the Six from the time the EEC was established, the flow of capital from the US has rendered any deficits of its members short-lived, but if last year's reduction in the US capital outflow continues the EEC countries could now run into payments crises.

Until recently, it was considered that to duplicate the Basle participations on a Six-wide basis would not be useful. Monetary collaboration among the Six has instead sought to prepare for further political integration—such as harmonisation of internal monetary and financial policies. The Commission, alarmed by the sudden appearance of huge intra-EEC speculative flows last autumn, has begun work on plans for swap facilities among EEC members. Whether these will come to anything depends on whether members are satisfied with what emerges at Basle over the BIS proposals.

III

COLLABORATION ON LIQUIDITY

Most of the monetary collaboration between European governments, rather than central banks, has been in the OECD and the Group of Ten. Neither is predominantly European; in both the USA has a powerful role.

The problems of the early 1960s—gold hoarding, an apparent shortage of liquidity, and chronic deficits of the reserve currency countries—were thrashed out in Working Party Three, the key monetary body within the OECD. One of its first accomplishments was to agree on a gold pool to share the losses of gold moving from official to private ownership during periods of speculation—the aim and, broadly, the effect was to prevent these losses from falling wholly on the USA.

The Group of Ten was born of a 1962 agreement to deal with shortages of currencies in the IMF—the General Arrangement to Borrow (GAB). Among the ten leading industrial countries which agreed to provide currency to the IMF in this way, some regarded the GAB as a small initial step towards increasing international liquidity, while others less convinced of this necessity (most of the continental member countries, at that time) agreed to it in order to forestall the Fund's use of its powers to acquire scarce currencies. It was not long, however, before the Ten began to plan to enlarge world liquidity. The United States set the pace. A meeting of finance ministers of the Ten at The Hague in July, 1966, agreed that contingency plans should be drawn up for new reserve assets, to be distributed to all IMF members.

Victory for USA

European opinion had generally opposed Fund-wide distribution, and its acceptance was a victory for the USA. France continued to resist any scheme at all, on the ground that a contingency plan, once prepared, would be quickly implemented. The effect on the French position of General de Gaulle's views on gold and liquidity, however, weakened French influence, even among other continental countries. The result was agreement, in September, 1967, on a plan for Special Drawing Rights (SDR), involving newly-created liquid assets. France, having agreed to the rules, subsequently made it clear that it would not participate in the scheme.

French officials were, however, instrumental in securing a joint EEC position on a number of conditions, including a veto for the Six (should they vote together) over SDR's, and pressure continued for a similar voting restriction on changes in certain existing IMF rules, including quota increases.

Also born in the GAB was the idea of mutual surveillance through OECD committees among the Ten, to ensure appropriate financial policies. The aim is to ensure that a payments imbalance is corrected within a reasonable time. The OECD has since spent much time on this problem, so far without visible results. However, Britain devalued to abolish her payments deficit, and these bodies acted on that occasion to prevent retaliatory devaluations and to secure credits to carry Britain through the difficult early months.

But the correction of imbalances which takes the form of surpluses is more difficult. The OECD pressure on West Germany to reduce its surplus led West German ministers to adopt slightly more liberal economic policies, and influenced the decision to revalue the mark in March, 1961. When similar pressures built up again late in 1968, the West Germans took steps to head them off. Before the critical meeting of Working Party Three (WPT), the West German Minister of Economics invited finance ministers to a special meeting of the Ten in Bonn. The German aim was to ensure a higher-level meeting

than WPT to discuss this politically-loaded subject. Bonn was also better than Paris for the West Germans to demonstrate the political opposition in their country to a DM revaluation. In the event, the West Germans conceded a pseudo-revaluation of four per cent of non-farm merchandise trade, through adjustment of rates of value-added tax on exports and imports. The French, after threatening to devalue by a large amount if the Germans did not revalue, did nothing.

The Bonn meeting, which was the first at which the Ten discussed exchange rate parities, showed that the mechanism for making parity changes is inadequate, particularly if revaluations are required. Devaluation can be forced upon a country by a financial crisis, but revaluation must be voluntary.

The meeting also suffered because it developed into a confrontation between France and West Germany, since uncertainty about the powers of the Nixon administration prevented the Americans from playing a positive part. Such narrow political confrontation is unlikely to produce the best solutions to correct economic imbalances. In this, as with hot money, greater automaticity is now thought desirable. And finally, it seems clear that in dealing with payments problems, as with speculation, only Atlantic solutions are being considered. Despite the emergence of West Germany as a powerful financial lender, purely European solutions do not exist, because the problems cover the whole developed non-communist world.

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Taxation in the Plans

J. R. KUMBHAT

THE PLANNING Commission's document on the fourth five-year Plan states that for ensuring growth with stability, the growth rate should be between five and six per cent each year. To achieve this rate of growth the Commission has suggested that the domestic savings will have to be stepped up from the current level of about eight per cent to nearly 12 per cent of the national income. Further, it has been stated that the growth rate of five per cent would imply additional resource mobilisation by the public sector to the extent of about Rs 200 crores during each year of the fourth Plan period. If the growth is to be six per cent, it would call for greater efforts on the part of the central and the state governments for mobilising additional resources to the tune of Rs 250-300 crores a year. Taxation is the major source for raising development finance and is a compulsory device to tap additional income generated during the process of growth.

Mobilisation of Resources

In the National Development Council's meetings, the role of additional taxation for mobilisation of resources has been thoroughly discussed. Mr Morarji Desai has expressed the opinion that India has not reached the saturation point in taxation and that there is room for further taxation. On the other hand, most of the chief ministers of the states have strongly disapproved any further recourse to fresh taxation for raising resources. The Chief Minister of Andhra Pradesh, Mr K. Brahmananda Reddy, a Congressman to the core, was very vocal in criticising the policies of the Planning Commission. He assailed the Commission for planning to raise additional taxation without studying the level of development of each state, its resources position and its capacity to mobilise more. The capacity of the states to mobilise resources through taxation has practically reached a state beyond which further taxation would be very difficult, if not impossible. The late Mr Annadurai has also made it quite clear that additional taxation to mobilise finance for the fourth Plan was not possible. The results of the states' efforts to raise resources through additional taxation during the last three plan periods do not present an encouraging picture.

During the first Plan, among the part 'A' states, Bombay was the only state which could raise a little more than the target of additional taxation. As against the target of Rs 23.5 crores, Bombay raised Rs 24 crores. Assam and Punjab nearly reached the target. Their achievements were Rs 3.3 crores and Rs 4.5 crores as against the targets of Rs 3.5 crores and Rs 5 crores respectively. In all the other part 'A' states, the tax efforts were much below their respective targets.

In part 'B' states there was not a single state which could fulfil the plan target. Rajasthan was the only state which could achieve 78.8 per cent of the target and Madhya Bharat and Travancore-Cochin came next in that order with 55 per cent and 54.5 per cent of the targets respectively. All the other part 'B' states could not achieve even 50 per cent of the targets with Pepsu achieving as low as 9.7 per cent only. The total five-year targets for part 'A' states and part 'B' states were Rs 185.7 crores and Rs 44.6 crores respectively. The part 'A' states raised Rs 62.6 crores or 33.7 per cent of the target and part 'B' states Rs 17.8 crores or 40 per cent. Of the total target of Rs 230.3 crores set for both part 'A' and 'B' states during the first Plan period, Rs 80.4 crores only could be raised, which formed 34.5 per cent of the total.

Additional Taxation

The second five-year Plan was framed in the light of the experience and achievements of the first Plan. The total outlay of the Plan, in financial terms, was fixed at Rs 4,800 crores. Out of this, the target of additional taxation was fixed at Rs 450 crores, which was 9.38 per cent of the total outlay. The state governments were expected to raise a total of Rs 225 crores or 4.69 per cent of the total outlay. This was supposed to be the minimum to be attempted for successful implementation of the plan. Various steps were taken by the states to raise these resources through additional taxation. The net result of all these measures was that for the first three years of the second Plan, the yield from additional taxation in the states was about Rs 79 crores only, i.e. 35.1 per cent of the amount expected to be raised by them. Putting the figures on an annual average basis the expected yield from additional taxation was estimated to be Rs 45 crores a year, but on an average Rs 26.33 crores per year could be raised in the first three years of the plan which formed 58.5 per cent of the annual target. The yield during 1956-61 from additional taxation measures adopted by the states was Rs 173 crores as against the target of Rs 225 crores. This was Rs 52 crores less as compared to the target. In other words, the target could be achieved to the extent of 76.89 per cent only. Thus, additional taxation which was only 4.49 per cent of the total outlay could not be achieved fully by the states.

Out of the total outlay of Rs 7,500 crores in the third Plan, the public sector investment was estimated at Rs 6,300 crores. Substantial tax efforts were visualised in order to mobilise internal resources and a sum of Rs 1,710 crores was expected to be raised by way of additional taxation by the centre and states together. Of this, the share of the states amounted to Rs 610 crores. Though little more than this target was achieved by the states they had to use all their might to mobilise the resources. The states raised Rs 615 crores, i.e. five crores of rupees more than the target. The opinion of most of the state chief ministers was that additional taxation to mobilise

more resources for the fourth Plan was not possible. Of the additional resources raised by the states through fresh taxation, a major part was absorbed by increase in non-plan expenditure. If the rise in prices was not checked, it would be futile to levy fresh taxation. The problem was not of levying additional taxes on the already hard-pressed people of the states and affect savings but to check the rising prices and then mobilise savings.

Not only the states but the central government had also not shown encouraging results though it appeared that much progress had been made in mobilising resources for development. The Government of India derives its revenue from both direct and indirect taxation. Though direct taxation is the best source of revenue yet, it does not have much scope in a country such as India. Developing countries rely more on indirect taxes, specially customs duties and excises. In view of the concentration of the largest number of people in the lowest income brackets, the limited possibilities for enlarging, to any considerable extent, receipts from direct taxation have led to increasing emphasis on indirect taxation. Moreover, there is great fluctuation in the yield of direct taxes with the rises and falls of national income.

In India taxes are levied both by the central and the state governments. In the structure of direct central taxes income tax is the most important source. It is composed of taxes on incomes and expenditures of individuals, Hindu undivided families, partnership firms, and the corporation tax. Estate duty, tax on wealth and gift tax are other sources which are of recent origin but are of small significance as their revenue-yielding capacity is marginal. As such, income-tax is the primary source and its importance in economic development has been expressed in the United Nations Economic Survey of Asia and the Far East for 1960 thus: "With its advantages of flexibility and progression, not only between different tax-payers but between successive changes in the volume of income potentially subject to taxation income taxes appear to provide the most suitable weapon for implementing broad fiscal policies, including the provision of incentives to save and invest." But with all its importance, direct taxes reach only a small proportion of total population of India. The share of direct taxation in the total revenues is also not very large. The trend of these taxes during the three Plan periods is shown in Table I.

The total revenue of the Government of India during the first, second and third Plan periods was Rs 2,232.87 crores, Rs 3,562.87 crores, and Rs 8,711.44 crores respectively. The proportions of the direct tax revenue to the total revenue of their respective periods were approximately 27 per cent, 24 per cent and 22.4 per cent only. It may be observed that the total net direct tax revenue increased from Rs 601 crores in the first Plan to Rs 869 crores in the second Plan and to Rs 1,950 crores in the third Plan period. In other words, there was an increase of nearly 45 per cent in the second Plan over the first Plan and 124 per cent increase in the third Plan over the second Plan. On the other hand, the proportion of these taxes in the total revenue decreased from 27 per cent in the first Plan.

TABLE I
TAX TRENDS DURING THE THREE PLANS

(Rs crores)

	First Plan period	Second Plan period	Third Plan period
I. Total taxes on income and expenditure (1+2+3)	586.95	810.60	1,866.24
1. Taxes on income other than corporation tax	664.07	803.68	1,148.30
Less states' share	278.24	374.67	555.52
Net receipts	385.83	429.01	592.78
2. Corporation tax	201.12	379.25	1,271.44
3. Expenditure tax	--	2.34	2.02
II. Total taxes on property and Capital transactions (1+2+3+4+5)	13.69	58.44	83.70
1 Estate duty	2.62	13.12	24.91
Less states' share	2.43	12.86	25.55
Net receipts	0.19	0.26	—0.64
2. Tax on wealth	—	36.97	50.55
3. Gift tax	--	2.68	7.59
4. Stamps and registration	8.10	15.92	24.34
5. Land revenue	5.40	2.61	1.86
Total net	600.64	869.04	1,949.94

Source: RBI Bulletin; April, 1968; P. 447.

TABLE II
STATES' SHARE IN TOTAL CENTRAL REVENUE

	Total central revenue					Share of states				
	First Plan	Second Plan	Per cent increased over first Plan	Third Plan	Per cent increased over second Plan	First Plan	Second Plan	Per cent increased over first Plan	Third Plan	Per cent increased over second Plan
1. Income tax	664.07	803.68	21	1,148.30	43	278.24	374.67	35	555.52	50
2. Estate duty	2.62	13.12	400	24.91	200	2.43	12.83	600	25.55	200
3. Excise duty	517.26	1,553.99	300	3,517.15	226	64.06	281.23	400	614.87	219

RBI Bulletin; April 1968, P. 448, Abstract from Statement No. 2.

to 24 per cent in the second Plan and came down to 22 per cent in the third Plan period. The reason for this declining trend in the direct tax revenue of the central government was that with the increase in the income-tax and estate duty, the share of states also increased according to the recommendations of the successive Finance Commissions and there was increase in the expenditure on collection. The increase in the share of the states and the collection expenditure were more compared to the increase in the tax revenue under the above heads as is shown in Table II (page 513).

The share of the states in the central income-tax, estate duty and excise duty has grown faster compared to the percentage growth of the sources shown in Table II. In the case of the estate duty, the centre had to pay more than what it received during the course of the third Plan period and there was minus balance of Rs 0.64 crores. Similarly, the expenditure on collection also increased from Rs 58.41 crores in the first Plan period to Rs 93.72 crores in the second Plan period and to Rs 124.93 crores in the third Plan period. It means that the expenditure on collection increased in the second Plan over the first Plan by 66 per cent and in the third Plan over the second Plan by 33 per cent. Consequently the net amount in the hands of the central exchequer did not keep pace with the increase in the tax revenue. Further, there was a sharp fall in land revenue from Rs 5.40 crores in the first Plan period to merely Rs 1.86 crores in the third Plan period

Unsatisfactory Yield

The yield from income-tax has been unsatisfactory. The percentage contribution of income-tax to increase in total tax revenue has been declining over the plan periods but the performance of the corporation tax has been very satisfactory. Whereas income-tax made a contribution of 6.4 per cent only to the increase in the third Plan over the first Plan period, the corporation tax made a contribution of 14.3 per cent in the same period.

The average income per head in developing countries is very low and income-tax covers only a very small proportion of population. In India, the income-tax in 1963-64 covered 1,037 million individuals, 71,936 Hindu undivided families, 59,618 registered and unregistered firms and other associations of persons, and 10,336 companies and other concerns assessable at company rates. It means that a fraction of the total population was covered by income-tax and a very large proportion remained outside the purview of the income-tax system.

One important reason for this low coverage is the fact that the minimum exemption limit is high in relation to the average per capita income. A man with a wife and three children has to earn over 19 times the national per capita income before he pays any tax on income in Burma, 15.6 times in the Philippines, 12.5 times in Ceylon, 10 times in India, and nearly 10 times in Malaysia. Among Asian countries only in Japan the multiple is low enough (3.4 times) as compared with 1.3 times in the USA; 1.9 in the UK, and Canada; 2.1 in France, and 0.7 in Australia

Limited Source

With meagre earning avenues and low rate of wages it is very difficult to earn 10 times of the per capita income and be a tax-payer, with the result that very few persons are in the taxable income group. The income-tax as a source of plan finance has, therefore, its own limitations. It is argued that by reducing the taxable minimum it is possible to cover a large number of potential tax-payers and increase the revenue. But it is not feasible as it goes against the principles of equity and justice, as below a certain commonly accepted minimum taxes cannot be levied. On the other had, even a high rate of taxation would also not quite augment the yield. In fact, taxes in India have already been very high. With the increase in income, income-tax rises progressively and India's maximum rate is the second highest in the world as shown in Table III.

The maximum marginal rate in India which applies above the income of Rs 100,000 is the second highest, the first being Pakistan which has the maximum marginal rate as high as 80 and applies above the income of Rs 76,000 only. If the maximum rate in India is increased, it will hurt private incentive and will hamper investment.

In developing countries the main sources of public revenue are indirect taxes. The purpose of indirect taxes is not revenue but a means to bring the general population within the tax net or as a balancing factor against the direct taxation of

TABLE III

TAX AS PERCENTAGE OF EARNED INCOME IN INDIA COMPARED WITH CERTAIN OTHER COUNTRIES

(Married individual with two children)

Income Rs	£	India 1960-61 Re.=1s. 6d.	UK 1960-61	USA $2.80 =£1	Canada $2.75 =£1	Japan Yen 1008 =£1	Pakistan 1959-60 Rs.=1s. 6d.	Ceylon 1959-60 Re=1s. 6d.
13,333	1,000	6.4	7.7	2.9	—	15.6	5.8	3.8
26,666	2,000	16.5	18.8	11.4	7.5	23.0	15.2	10.9
40,000	3,000	26.3	25.1	14.8	11.8	27.5	23.3	17.9
53,333	4,000	34.5	30.4	16.9	15.1	30.6	32.0	25.0
66,666	5,000	40.7	35.4	18.7	18.3	33.3	38.7	30.5
80,000	6,000	46.0	39.6	19.9	21.6	35.3	45.0	35.2
93,333	7,000	49.8	43.3	21.6	24.5	37.2	50.0	38.8
1,06,666	8,000	53.1	46.2	23.1	27.1	38.8	53.9	41.4
1,20,000	9,000	55.7	48.9	24.8	29.1	40.1	56.7	43.5
1,33,333	10,000	57.9	51.2	26.4	30.7	41.1	59.0	45.1
2,00,000	15,000	64.2	62.0	33.8	37.1	45.7	66.0	50.1
2,66,666	20,000	67.4	68.7	39.9	41.4	48.0	69.5	52.6
3,33,333	25,000	69.3	72.7	44.5	44.5	50.4	71.6	54.1
Minimum marginal rate		77	88.75	91	80	70	80	60
Applied above the income of:		1,00,000	2,04,000	19,61,000	19,53,333	6,61,376	76,000	69,000

Source: NCAER: Taxation and Private Investment; 1961; Tables 3 and 4, p. 82-88.

the upper income groups. It is best suited to developing countries due to ease in collection and comparatively low cost of administration. The indirect taxes reduce consumption and promote savings; their distinctive effect on private investment is limited and they yield large revenue to the treasury.

The government needs finance for economic development and for this all citizens should be made to pay. The indirect taxes are a means to reaching the masses of consumers who do not pay income-tax. They reduce consumers' spending and widen the margin of savings in the economy. Indirect taxes can be classified into two categories: (i) taxes on foreign trade, i.e. exports and imports, and (ii) taxes on internal transactions, i.e. excise duty, sales tax and other taxes and duties. The revenue of the central government through indirect taxes has increased enormously during the three plan periods as shown in Table IV.

Satisfactory Increase

The revenue from excise duties has increased very satisfactorily but the percentage increase in revenue from excise duties in the third Plan period over the second Plan period was lower than the increase in the second Plan over the first Plan. On the other hand, revenue from export duties dwindled from Rs 264.4 crores in the first Plan period to just Rs 30.2 crores only in the third Plan period. The performance of customs, on the whole, was satisfactory in the second Plan. Revenue from customs duties in the second Plan period was smaller by 10 per cent in relation to the first Plan period. In the third Plan period, there was an impressive improvement as there was an increase of 111.5 per cent over the second Plan period. This increase was due to an increase in import duty which rose from Rs 648.3 crores in the first Plan period to Rs 1,723.2 crores in third Plan period.

The percentage contribution of various important sources of revenue to total tax revenue during the three Plan periods is given in Table V.

The percentage contribution of income-tax to the increase in total tax revenue has been declining over plan periods. The percentage contribution of income-tax to increase in total tax revenue in the third Plan period over the first Plan period comes to 6.4, whereas corporation tax made a contribution of 14.3 per cent in the same period.

Excise duties contributed as high as 39.4 per cent to the increase in total tax revenue in the third Plan period over the first Plan period. On the other hand contributions of land revenue and customs, in the same period, were 3.2 and 10.7 per cent respectively.

The total tax revenue of the states in the first, second and third Plan periods was Rs 1,264.7 crores, Rs 1,893.5 crores, and Rs 3,341.1 crores respectively. There was a marked increase in tax revenue in the successive plan periods. Thus, increase in tax revenue in the second Plan period over the first Plan period was Rs 628.8 crores or 49.7 per cent; in the third Plan

TABLE V

INCREASE IN TAX REVENUE AS PERCENTAGE OF INCREASE IN TOTAL TAX REVENUE

Tax sources	Second Plan period over first Plan period	Third Plan period over second Plan period	Third Plan period over first Plan period
1. Income tax	6.8	6.1	6.4
2. Corporation tax	6.8	15.9	14.3
3. Land revenue	6.4	2.1	3.2
4. Union excise duties	51.4	35.1	39.4
5. Customs	4.9	16.3	10.7

Source: 'Economic Times', Paper by P. C. Verma.

TABLE VI

GROWTH OF DIRECT AND INDIRECT TAXES OF THE CENTRAL GOVERNMENT: 1950-51—1965-66.

	Tax revenue (Rs crores)			As % of total tax revenue	
	Direct	Indirect	Total	Direct taxes	Indirect taxes
1950-51	231	428	659	35.1	64.9
1955-56	255	558	813	31.4	68.6
1960-61	391	1,044	1,435	27.2	72.8
1961-62	433	1,195	1,628	26.6	73.4
1962-63	483	1,334	1,818	26.6	73.4
1963-64	693	1,632	2,325	29.8	70.2
1964-65	742	1,857	2,599	28.5	71.5
1965-66	741	2,113	2,854	26.0	74.0

Source: Tata Industries Pvt. Ltd Statistical Outline of India, 1967, Table 87, P. 80.

TABLE IV

REVENUE THROUGH INDIRECT TAXES DURING THE THREE PLANS

(Rs crores)

	Total First Plan period	Total Second Plan period	Total Third Plan period
Taxes on commodities and services (1+2+3+4) ..	1,372.88	2,125.69	4,708.16
Customs: Imports	648.30	698.42	1,723.22
Exports	264.37	104.35	30.23
Other Revenue	21.83	37.77	32.46
	934.50	840.54	1,785.91
Less refunds	18.84	22.89	56.49
1. Net receipts	915.66	817.65	1,729.42
Union Excise Duties:	517.26	1,553.99	3,517.15
Less states' shares	64.06	281.23	614.81
2. Net receipts	453.20	1,272.76	2,902.34
Taxes on Railway Passenger Fare	—	44.62	—
Less states' shares	—	42.16	—
3. **Net receipts**		2.46	
4. **Other taxes and duties**	4.02	32.82	76.40

Source: RBI Bulletin, April 1968, Statement No. 2, p. 449.

period over the second Plan period Rs 1,447.6 crores or 76.4 per cent and, that of third Plan period over the first Plan period it was Rs 2,076.4 crores or 164.1 per cent. But the contribution of tax revenue as percentage of total tax revenue in the first, second, and third Plan periods actually showed a declining trend which stood at 34.4 per cent, 31.2 per cent and, 28.1 per cent respectively.

The growth of the direct and indirect tax revenue of the central government from 1950-51 to 1965-66 was as given in Table VI (page 515).

It is observed that though the trend of tax revenue from direct taxes is towards a rise, yet its share in total tax revenue has all along been falling except in 1963-64 and 1964-65, when it showed a small increase. It can, thus, be said that the mobilisation of resources for the fourth five-year Plan through additional direct taxation will be modest. On the other hand, the share of indirect taxation in the total tax revenue of the Government of India increased from 65 per cent in 1950-51 to 74 per cent in 1965-66. It is to be seen whether it would be possible to extract more from the public through indirect taxation when their purchasing power has been adversely affected by the slow growth of employment opportunities on the one hand and the rising cost of living on the other.

Relationship Between Aid and Trade

P. KUMAR

THE DEVELOPING countries, in their endeavour to improve the structural imbalances in their economies, import capital equipment, maintenance goods, technical know-how etc. The peculiar features of these imports are: a wide range and an inelastic demand. On the other hand, the characteristics of their exports are: a narrow range of primary products, an inelastic demand (in relation to falling prices) and an elastic demand (in relation to rising prices), and an unstable supply. The cumulative effect of all these factors is that these countries suffer from endemic trade deficits. The figures in Table I substantiate this fact.

The balance of trade is the predominant constituent of the balance of payments. As such, the deficit in trade aggravates the problem of balance of payments. The World Economic Survey aptly analyses that "the gap on trade account has pulled down the combined external resources of the developing countries to a dangerously low level."(1) To reduce the deficits in balance of payments, the developing countries fall back upon international aid. Arguing on the same lines, the survey maintains: "In many of the developing countries, export structures do not provide an assured source of expanding foreign currency earnings; hence there is a certain dependence on the net inflow of resources other than through trade. This has made the financing of economic development an international matter, involving the governments of the more advanced countries as well as those of the developing countries themselves."(2) International aid has its impact (and implications) on the economies of the donor as well as the recipient countries. The most prominent sector of the economy to be affected by aid is that of trade. According to the survey, the long-term objective of the financing of economic development should be to enable the developing countries "to finance the required imports by means of their exports...."(3) Through an examination of the relationship between aid and various components of international trade, this article aims at finding

TABLE I

INTERNATIONAL TRADE OF THE UNDERDEVELOPED AREAS, 1956-64

(Millions of dollars)

Year	Imports (c.i.f.) from the world	Exports (c.i.f.) to the world	Balance of trade
1956	26200	24900	—1300
1957	29700	25400	—4300
1958	27700	24700	—3000
1959	27200	25700	—1500
1960	30000	27400	2600
1961	30800	27700	—3100
1962	31200	28900	—2300
1963	32400	31500	— 900
1964	34900	34400	— 500

Source: UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966, Pp. 12-13.

TABLE II

NET OUTFLOW OF RESOURCES TO THE DEVELOPING COUNTRIES AND WORLD EXPORTS BY REGIONS, 1956-64

(Millions of dollars)

Year	Public flows (bilateral) (1)	Flows from multilateral agencies (excepting UN) (2)	Total flow (1+2) (3)	Exports from developed areas to underdeveloped areas (4)	Percentage of (3) to (4) (5)	Exports from underdeveloped areas to developed areas (6)
1956	2607	139	2746	18320	15	18250
1957	3034	262	3296	20830	16	18180
1958	3645	312	3957	19680	20	17860
1959	3540	278	3818	19280	20	18770
1960	3982	185	4167	21230	20	19770
1961	4803	76	4879	21650	20	19760
1962	5031	257	5288	21240	25	20750
1963	5294	440	5734	22370	26	22830
1964	5271	600	5871	24640	24	24910

Source: Column (1): UN (Department of Economic and Social Affairs): The Financing of Economic Development, World Economic Survey 1965-Part I, New York, 1966, Table II-1, p. 45.
Column (2): Ibid., Table V-2, p. 126.
Columns (4) and (6): UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966, pp. 28-29.

out the catalytic effect of aid in achieving the aforesaid objective.

The flow of aid has a direct bearing on the exports of the donor countries and the imports of the recipient countries. The utilization of aid-financed imports may facilitate export-orientation and generation of exportable surplus in the recipient countries. In Table II (page 516) the relevant figures of aid and trade have been compared.

Except for the years 1958 and 1962, increased outflow of aid (as compared to the preceding year) is associated with increased exports from the developed countries to the underdeveloped countries. It clearly indicates that the outflow of aid has helped in increasing exports, from the developed countries to the underdeveloped countries, to a substantial extent. The increasing percentage of aid to export shows that the dependence of the developing countries on aid, to finance their imports, is on the increase.

During the years 1957, 1958 and 1961, the flow of aid from the developed countries to the underdeveloped countries increased (as compared to the preceding year) but the corresponding exports from the underdeveloped countries to the developed countries went down. Also, as compared to 1956, the outflow of aid from the developed areas to the underdeveloped areas rose by about 114 per cent in 1964; but, for the same years, the percentage of increase in exports from the underdeveloped areas to the developed areas rose by only 53 per cent. The only relieving feature seems to be that during 1963 and 1964, exports from the underdeveloped areas to the developed areas were more than imports into the underdeveloped areas from the developed areas. But the figures of favourable balances of $460 million and $270 million were meagre as compared to the inflow of aid during the same years.

The developing countries depend heavily on the developed countries for their import requirements. Table III shows the degree of such dependence.

The developed countries provide more than three-fourths of the import requirements of the underdeveloped countries.

TABLE III

FLOW OF AID AND INTERNATIONAL TRADE BY REGIONS, 1956-1964

(Millions of dollars)

Year	Flow of aid	Imports into underdeveloped areas: from developed areas	from underdeveloped area	Total	Percentage of (2) to (4)	Imports into developed areas: from developed areas	from underdeveloped areas	Total	Percentage of (7) to (8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1956	2746	18320	5780	24100	76	45890	18250	64140	28.5
1957	3296	20830	6160	26900	77	49600	18180	67780	26.8
1958	3957	19680	5650	25330	78	46450	17860	64310	27.8
1959	3818	19280	5760	25040	77	51290	18770	70060	26.8
1960	4167	21230	6060	27290	78	58920	19770	78690	25.1
1961	4879	21650	6070	27720	78	62930	19760	82690	23.9
1962	5288	21240	6300	27540	77	67400	20750	88150	23.5
1963	5734	22370	6630	29000	77	74620	22830	97450	23.4
1964	5871	24640	7080	31720	78	85550	24910	110460	22.6

Source: Column (1): Table II.
Columns (2), (3), (6) and (7): UN (Department of Economics and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966, Pp. 28-29.

TABLE IV

OUTFLOW OF AID AND UNIT VALUE (PRICE) INDICES, 1956-64.

Year	Outflow of aid (millions of dollars)	Export unit values (price) index base (1958=100): Developed areas	Export unit values: Underdeveloped areas	Import unit value (price) index base (1958=100): Underdeveloped areas	Import unit value: Developed areas	Percentage of imports to total imports into: Underdeveloped areas from developed areas	Percentage of imports to total imports into: Developed areas from underdeveloped areas
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1956	2746	100	104	100	103	76	28.5
1957	3296	103	104	103	107	77	26.8
1958	3957	100	100	100	100	78	27.8
1959	3818	99	97	98	97	77	26.8
1960	4167	100	98	99	98	78	25.1
1961	4879	101	95	98	97	78	23.9
1962	5288	101	93	97	96	77	23.5
1963	5734	102	95	98	97	77	23.4
1964	5871	103	97	99	99	78	22.6

Source: Column (1): Table II.
Columns (2) to (5): UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966, Pp. 30-31.
Columns (6) and (7): Table III.

As pointed out earlier, the outflow of aid has been helpful in enhancing exports from the developed countries to the underdeveloped countries. The percentage of aid to exports rose as high as 26 (Table II, column 5) in the latter years. As a corollary, the decrease in or stoppage of aid is bound to affect adversely the exports from the developed areas to the underdeveloped areas.

The developed areas do not import in as high proportions from the underdeveloped areas as they provide aid; most of their import requirements are met inter se. Table I indicates that the exports from the underdeveloped areas to the world have gone up but Table III shows that the relative share of exports from the underdeveloped areas to the developed areas has a downward trend. It means that the enhanced additional exports have gone to the underdeveloped areas and increased aid has not been helpful in regional diversion of exports.

The flow of aid influences the unit values (prices) as shown in Table IV (page 517).

Except for the years 1958 and 1962, increased (as compared to the preceding year) outflow of aid from the developed areas to the underdeveloped areas is associated with increased unit value (price) indices of exports from the developed areas to the world. It means that the outflow of aid has been helpful in improving the unit value (price) of exports of the developed areas. The export unit value (price) indices of major donor countries also substantiate this fact (see Table V).

Noteworthy Point

The five developed countries, which contributed 90 per cent or more aid during the years 1956-1964, had, by and large, favourable export unit values (prices). The noteworthy point is that, with the increase in the amount of aid, indices for the corresponding periods showed an upward trend. As compared to the increasing amount of aid, the relative improvement in the unit values was of different degrees. The least improvement was in the unit values of the USA, the biggest donor among all the five countries.

Barring the years 1957, 1960, 1963 and 1964, increased inflow (as compared to the preceding year) of aid to the underdeveloped areas was associated with decreased unit value (price) indices of exports from the underdeveloped areas to the world. It does not mean that increased aid decelerated the unit values of exports from the underdeveloped countries to the world but, it does indicate that aid has not been substantially helpful in export-orientation as well as export-diversification (commodity composition) of the underdeveloped areas. Moreover, contrary to the fluctuating upward trend in the export unit value (price) indices of the developed countries, the export unit value (price) indices of the developing countries show a fluctuating downward trend.

The outflow of aid from the developed areas to the underdeveloped areas is correlated with increased exports from the developed areas to the underdeveloped areas. The relevant point is that higher inflow (as compared to the preceding year) of aid to the underdeveloped areas, during the years 1957, 1960, 1963 and 1964, was associated with higher unit values (prices) of imports. The comparison of unit values (prices) of imports of the underdeveloped areas with the percentages of imports into them from the developed areas (Table IV, columns 4 and 6) showed that higher percentages were associated with higher unit values and vice versa. It indicates that the inflow of aid has been contributory to increasing the import prices for the underdeveloped areas. This may be verified from the cases of important recipient countries.

The Year Book of International Trade Statistics does not contain figures of unit values (prices) for many of the underdeveloped countries. The figures of a few countries (Table VI) show that barring Brazil and Pakistan, the other major aid-receiving countries reveal an association of higher inflow of aid with higher import unit value (price) indices and vice versa.

Table IV reveals that during the years 1958, 1961 and 1962, increased (as compared to preceding year) outflow of aid from the developed areas to the underdeveloped areas is associated with decreased unit value (price) of imports from the world (column 4). In the rest of the years, this type of relationship is missing. The developed areas have been unable to import at cheaper prices in spite of higher outflow of aid, only because they imported very little from the underdeveloped areas. If they increase their imports from the underdeveloped areas pro rata, the unit values of imports are likely to be favourable to

TABLE V

NET OUTFLOW OF RESOURCES TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES BY SELECTED COUNTRIES AND THEIR EXPORT UNIT VALUE (PRICE) INDICES, 1956-1958 TO 1962-64

Country	Average 1956-1958		Average 1959-1961		Average 1962-1964	
	Net outflow of resources (millions of dollars) (1)	Export unit value (price) index base 1958=100 (2)	Net outflow of resources (millions of dollars) (3)	Export unit value (price) index base 1958=100 (4)	Net outflow of resources (millions of dollars) (5)	Export unit value (price) index base 1958=100 (6)
Canada ...	56	100	86	102	94	107
France ...	787	92	874	112	900	116
West Germany .	230	101	369	102	394	107
UK ...	208	96	386	100	415	105
USA ...	1778	100	2523	101	3301	102
Total (5 countries) ..	3059		4218		5104	
Grand Total (19 countries)	3324		4651		5690	
Percentage of total to grand total ...	92		91		90	

Source: Columns (1), (3) and (5): UN (Department of Economic and Social Affairs): Financing of Economic Development, World Economic Survey 1965—Part I, New York, 1966, Table II-2, p 46.
Columns (2), (4) and (6): Adapted from UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966.

them. According to Table IV (columns 5 and 7), during the years 1957, 1958, 1960, 1963 and 1964, the decrease (as compared to the preceding year) in the relative share of imports into the developed areas from the underdeveloped areas was associated with the increase in the unit values of imports for the developed areas and vice versa.

The unit values (prices) of exports and imports affect the terms of trade. To borrow the words of Viner, "All other things equal, it is, of course, to the advantage of a country that its export prices should be high and should be moving still higher, relative to its import prices."(4) Table VII shows relationship between aid and terms of trade.

Donors Benefit

Barring the year 1959, when the outflow of aid was low (as compared to the preceding year), the increased outflow of aid was associated with increased (i.e. favourable) terms of trade for the developed areas, during the years 1957 to 1962. The other remarkable fact was that the trend of the terms of trade was favourable to the developed areas. Table VIII shows that, by and large, major donor countries enjoyed favourable terms of trade.

Excepting France which had reduced terms of trade during 1962-1964, the rest of the major donor countries had increased terms of trade associated with enhanced outflow of aid. From the point of view of the enhanced terms of trade, West Germany had been the largest beneficiary.

The inflow of massive aid may be a substitute for unfavourable terms of trade; as argued by Onitiri, "......in the absence of a massive increase in foreign aid, the process of development of the primary producing countries may be considerably slowed down if the terms of trade remain at their present level."(5) It clearly indicates that inflow of aid should improve the terms of trade. Contrary to this reasoning, (Table VII), large inflow of aid is associated with decreasing (i.e. unfavourable) terms of trade for the underdeveloped countries, except a little improvement in 1963 and 1964. Morgan, in his paper submitted to the International Economic Association Conference in 1961, also came to the same conclusions on the basis of figures for the years 1954-1959.(6) The noteworthy fact is that in 1956 the indices of terms of trade for the developed and the underdeveloped areas were 97 and 104 respectively; but, in 1964 these figures were interchanged, i.e. the indices became 104 and 97 for the developed and the underdeveloped areas respectively. This downward trend corroborates that aid has not been effective in export-orientation as well as in compositional diversification, which alone can improve the terms of trade for the underdeveloped countries.

The developed countries have been great beneficiaries of international trade.(7) The comparisons show that outflow of international aid makes the benefits still greater. The outflow of international aid has expanded the exports from the developed countries to the underdeveloped countries and its reduction or cessation is likely to reduce such exports substantially. The outflow of international aid has also increased the exports from the underdeveloped areas to the world, but it has not increased the relative share of exports from the underdeveloped areas to the developed areas. Thus, aid has not helped in regional diversification of exports from the underdeveloped countries. Outflow of aid has increased export

TABLE VII

AID AND TERMS OF TRADE, 1956-1964

Year	Outflow of aid (millions of dollars) (1)	Terms of Trade: Developed areas (2)	Terms of Trade: Underdeveloped areas (3)
1956	2746	97	104
1957	3296	96	100
1958	3957	100	100
1959	3818	102	99
1960	4167	103	99
1961	4879	104	97
1962	5298	105	95
1963	5734	104	97
1964	5871	104	97

Source: Columns (1): Table II, Columns (2) and (3): UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966, p. 31.

TABLE VI

NET OFFICIAL FLOW OF EXTERNAL RESOURCES FROM INDUSTRIAL MARKET ECONOMIES AND FROM MULTILATERAL AGENCIES TO SELECTED DEVELOPING COUNTRIES AND THEIR IMPORT UNIT VALUE (PRICE) INDICES, 1961-1964

Country	Average 1961-1962: Net outflow of resources (millions of dollars) (1)	Average 1961-1962: Import unit value (price) indices base 1958=100 (2)	Average 1963-1964: Net outflow of resources (millions of dollars) (3)	Average 1963-1964: Import unit value (price) indices base 1958=100 (4)
Argentina	141	94	108	92.5
Brazil	523	108	432	112
Chile	268	92	279	92.5
India	1404	96	2208	98
Israel	221	93	239	94.5
Pakistan	661	101.5	1019	99.5
Philippines	88	107	124	115.5
Thailand	98	99	92	94.5

Source: Columns (1) and (3): Adapted from UN (Department of Economic and Social Affairs): International Flow of Long-term Capital and Official Donations 1961-1965, New York, 1966, Pp. 30-32.
Columns (2) and (4): Adapted from UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964.

unit value (price) indices of the donor countries, but its inflow has not improved the export unit value (price) indices of the recipient countries. The import unit values (prices) of the developed countries may be lower if they encourage imports from the underdeveloped countries. The import unit value (price) indices of the underdeveloped countries have been higher because of their dependence on the developed countries for imports. Outflow of aid as well as export of manufactured goods makes the terms of trade favourable to the developed areas and unfavourable to the importing underdeveloped areas. Singer rightly says that the industrial countries are benefited as consumers of primary commodities and as producers of manufactured articles and the underdeveloped countries have often had the worst of both.(8) The overall effect is that on the one hand, the trade-deficit of the underdeveloped countries has enhanced (Table I) and on the other hand, the thought of 'aid to end aid' has been thwarted. The underdeveloped areas are in a precarious position with regard to their mounting debt repayment obligations, and in fact, need 'aid to redeem aid'. The figures in Table IX highlight the gravity of the situation.

TABLE VIII
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES AND THE MULTILATERAL AGENCIES BY SELECTED COUNTRIES AND THEIR TERMS OF TRADE, 1956-1958 to 1962-1964

Country	Average 1956-1958		Average 1959-1961		Average 1962-1964	
	Net outflow of resources (millions of dollars)	Terms of trade	Net outflow of resources (millions of dollars)	Terms of trade	Net outflow of resources (millions of dollars)	Terms of trade
	(1)	(2)	(3)	(4)	(5)	(6)
Canada	56	101	66	103	94	97
France	787	98	874	100	900	103
West Germany	230	95	369	103	394	108
UK	208	95	386	102	415	105
USA	1778	97	2523	105	3301	105

Source: Columns (1), (3) and (5): Table IV. Columns (2), (4) and (6): Computed from UN (Department of Economic and Social Affairs): Year Book of International Trade Statistics 1964, New York, 1966.

TABLE IX
AMORTIZATION AND INTEREST PAYMENTS OF PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT OF THIRTY-FOUR DEVELOPING COUNTRIES, 1956-1963
(Million of dollars)

Year	rest	Amortization	Total debt services
1956	151	457	608
1960	322	1089	1411
1961	366	1093	1459
1962	475	1287	1762
1963	537	1438	1975

Source: UN (Department of Economic and Social Affairs): International Flow of Long-term Capital and Official Donations 1961-1965, Table 16, p. 46.

As compared to 1956, the interest obligations, the amortizations and the total debt service obligations of the 34 developing countries increased by 255 per cent, 215 per cent and 225 per cent, respectively, in 1963. The above figures also reveal that in 1956 the amount of amortization was $457 million but in 1963 the interest payable exceeded this amount, the same being $537 million. For the period ahead, the picture is likely to become more sombre. According to the analysis made by a UN team, "......for the developing countries as a whole the burden of debt service is likely to rise even more sharply in future as grace periods come to an end and interest and amortization have to be paid on the debt contracted in the nineteen-sixties."(9) With an eye on these debt services, Harrod said that "in general, foreign borrownigs should be regarded as a burden upon the balance of payments."(10) The above trends give rise to grave doubts about the efficacy of international aid in the achievement of the avowed objective of financing imports through export-earnings.

Rational Approach

To reduce the rigours of growing trade deficits and galloping repayment obligations of the underdeveloped countries, a rational approach is needed on the part of the donors as well as the recipients of aid. The UN study team rightly concluded that "there is a strong common interest in a realistic reappraisal of the terms on which resources are made available to the developing countries".(11) The sympathetic gesture of debt-rescheduling and moratorium of payments is only a palliative and not the panacea. The developed countries must encourage imports from the underdeveloped countries to their own benefit (as it will lower unit values of their imports) and to the benefit of the recipients of aid. The donor countries must impose stipulation that the recipients will canalise aid towards export orientation and import substitution of their foreign trade sector. But, there will be some time-lag between aid utilization and export orientation. As such, the terms and conditions, as to the time of repayment, should be fixed with this time-lag in view. The 225 per cent increase in the amount of interest within eight years (as compared to the 24 per cent increase in aid) also indicates that the terms as to rate of interest also need liberalization. On the other hand, the underdeveloped countries should encourage imports of manufactured goods from those developing countries as have attained some degree of export-orientation and have started exporting them. It will help in reducing import unit value (price) indices of the underdeveloped countries. The underdeveloped countries must strengthen their foreign trade sector by diverting aid to this sector.(12) Too much reliance on the GATT or the Kennedy Round or the UNCTAD is not likely to bear the desired fruits. The UN study rightly opines that the multilateral efforts through the GATT and the UNCTAD to increase the gains derived by the developing countries from their exports "have yielded relatively little in the way of easier access or improved terms. However, the goods concerned, being predominantly primary commodities, have faced not only unfavourable demand conditions but also one of the most recalcitrant elements in the commercial policy of almost all the developed market economics."(13) Through a rational approach the developing countries may be able to realise their dream of 'liquidating aid through trade'.

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Research in Family Planning

B. L. RAINA

RESEARCH FORMS a significant part of the integrated health and family planning programme in the country. All along, the programme has been continually strengthened and modified when and where necessary by the findings of the numerous research studies that have been carried out over the years. Some of the questions usually asked are: What are the main family planning research activities? What picture emerges out of the research done so far? What are the major directions in which research efforts are being, or should be, intensified?

The research carried out in family planning comprises areas of follow-up studies, bio-medicine, social sciences and demography, communications, organization and field operations. Emphasis in these studies has been laid on those aspects which contribute to better implementation and further development of the family planning programme. Basic research is also given support. The following will give an idea of the research that has been undertaken in this country in the field of family planning and the ideas thrown up by this research to make the programme more effective.

I.U.C.D.

About 2.45 million IUCD insertions were reported up to May, 1968. Allowing for drop-outs, about 1.5 million women have been protected, which number corresponds to 2.9 per cent of the eligible couples. On an average the acceptors had four children and the median age group at the time of first insertion was between 25 and 29 years. Between 40 and 50 per cent of the acceptors had no complaints and among those who had more than half mentioned bleeding and pain. The progressive retention rates are shown in Table I. One IUCD insertion is estimated to prevent 0.5 birth.

Sterilization

The number of sterilization operations reported since 1966 is over five million. Up to 1960, tubectomies (female sterilization) were more than half of all sterilizations, whereafter there was a swing in the ratio. Currently there are about six vasectomies for every tubectomy. The median age for vasectomy is 35 to 39 years for the husband and 30 to 33 years for the wife; for tubectomy it is 31 years. The mean number of children in both cases is five. The research activities are in

TABLE I
IUCD TERMINATION RATES*
(Per 100 insertions)

Duration (months)	Expulsion	Removal	Pregnancy	Total termination
6	4.5	6.3	0.4	11.2
12	8.7	13.6	1.14	23.4
18	11.2	23.1	2.2	36.3
24	16.6	27.4	2.3	46.3

* Murty, D.V.A.; Mohapatra P.S., and Prabhakar A.K. An analysis of Data on IUCD cases—Central Family Planning Institute, New Delhi

TABLE II
SOME CHARACTERISTICS OF ACCEPTORS

Methods	Median age of woman		Living Children		Literacy		Income	
	Cases	Age	Cases	Number	Cases	Percentage literate	Cases	Percentage with less than Rs 100 a month
Vasectomy	74,453	37.7†	68,134	4.5	21.261	45.1	3.374	61.1
Tubectomy	30,965	31.6	26.207	4.7	11.595	36.9	1.590	66 1
IUCD	132,071	28.5	129.814	4.0	9,512	45.5	1,652	22.0
Orals	1,856	29.8	1,800	3.3	1,856	71.1	1,856	26.6*

* Refers to family income. † Wife of case.

in any state, the lowest observed in Andhra Pradesh was still as high as 5.6.

TABLE VI
AVERAGE NUMBER OF CHILDREN BORN TO WOMEN WITH UNBROKEN MARRIAGES 47 YEARS AND OVER, URBAN AREAS OF STATES, INDIA, 1960-61

States	Average number of children born
Andhra Pradesh	5.59
Assam	5.65
Bihar	8.50
Gujarat	7.23
Jammu & Kashmir	6.27
Kerala	6.51
Madhya Pradesh	6.20
Tamil Nadu	5.79
Maharashtra	6.19
Mysore	6.64
Orissa	5.77
Punjab	6.76
Rajasthan	7.07
Uttar Pradesh	7.47
West Bengal	6.23
All India	**6.54**

Differentials in Fertility

Rural-urban Residence: Data from several sources indicate that the rural-urban differential in fertility was small and insignificant up to the end of the 'fifties. These sources include the different rounds of the national sample surveys of the Registrar-General of India, those of the Gokhale Institute of Politics and Economics, the Mysore population survey and the Bengal survey and those undertaken by other agencies. The average number of children born to women with unbroken marriages during their reproductive span, as reported by the different studies, is shown in Table VII.

TABLE VII
AVERAGE NUMBER OF CHILDREN BORN TO WOMEN REMAINING MARRIED TILL THEY PASS THE REPRODUCTIVE AGE*

Bengal Survey (1947-1949)	
Ballygunge-Upper middle class, urban	5.7
Beniatola-Lower middle class, urban	6.2
Singur-rural	7.3
Mysore Survey (1952)	
Bangalore City	6.2
Rural Areas	6.0
Poona Survey (1952)	5.9
Poona City	6.4
Poona (Non-City)	6.4
National Sample Survey (1952)	
All India Urban	5.36
All India Rural	5.92
Patna City Survey (1956)	5.9
Banaras, Rural areas (1956)	6.8-7.3
Central India Survey (1958)	
City	6.6
Village	6.8

* The year within brackets refers to the time when the survey was conducted.

While it is clear that rural-urban differentials with regard to completed family size are minimal, one must not overlook the fact that completed family size does not reflect the recent trends in fertility. The current fertility can be studied from current birth rates. Table VIII gives the birth rate obtained in the studies mentioned in Table VII as well as in the different rounds of the national sample survey and the one per cent survey of the Registrar-General.

Education: A negative association between fertility and educational level has been observed in the several studies in this country and abroad. The Mysore population study revealed that in Bangalore city, the average number of children born to ever-married illiterate women above the age of 45 was about 5.4, while that for women with high school or college education, it was 0.9. Partly, this might have been due to the higher age at marriage of the better educated woman. The National Sample Survey of 1960-61 conducted in urban areas also showed similar results. For women aged 47 years and over with unbroken marriage it was found that the number of live births to illiterate women and women with education up to the primary level only was 6.6. Corresponding figures for women with middle and high school education were 5.0 and 4.6 respectively. For women with university education it was as low as 2.0. This focuses attention on the importance of educating girls. It is reported that while 90 to 95 per cent of boys are attending schools hardly 60 per cent girls go to school. Education (especially of women) is a vital sector not only for economic development but "even in the matter of achieving the small family norm".†

Economic Status: The national sample surveys have shown generally that fertility decreased with increase in per

TABLE VIII
BIRTH RATES IN SELECTED AREAS IN INDIA

Mysore Survey (1952)	
Bangalore City	33.0
Towns	38.9-39.8
Rural Plains	39.9
Rural Hills	44.5
National Sample Survey Seventh Round (1953-1954)	
All India	29.7
Urban Areas	34.6
Rural Areas	39.9
Patna City Survey (1956)	
National Sample Survey Fourteenth Round (1957-1959)	
All India Rural	38.9
National Sample Survey Fifteenth Round (1959-1960)	
All India Rural	38.9
Registrar-General's Sample Registration Scheme	
Full Scale Sample Registration	
Bihar	37.7
Gujarat	44.8
Kerala	34.5
Maharashtra	32.8
Mysore	38.8
Pilot Sample Registration	
Andhra Pradesh	33.2
Assam	39.9
Jammu & Kashmir	42.1
Madhya Pradesh	45.8
Tamil Nadu*	39.9
Orissa	36.2
Punjab**	41.6
Rajasthan	41.5
Uttar Pradesh	45.5
West Bengal	39.7

* Purposive Sample.
** Includes Haryana.

† Mitra, Asok, The Small Family Norm and Literacy Family Planning News, Vol. X, No. 2, 1969.

capita household expenditure. However, a detailed study of couples with very low incomes has shown that fertility tends to increase till a certain level; then it shows a tendency to drop. Similar results were also found in the Mysore study. While education is a vital factor, in Kerala (where education level is high) fertility has not been moderated. This seems to be due to low economic status and employment.

Age at Marriage: Social and cultural factors have tended to support an early age at marriage for females in India. Some idea of the trend in the age at marriage over the decades can be obtained from census data and shows a trend of gradual increase. The present age at marriage for females is estimated to be about 16 years. Certain large-scale surveys, including the Mysore Population Study and the National Sample Survey, have shown a higher age at marriage for urban women as compared with rural women. However, the difference in age between rural and urban females has not led to a differential pattern in fertility between the two groups of women as the age of both these was rather low.

Data about the median age at marriage by educational level of cohorts of women in Bangalore city and towns is given in Table IX.

TABLE IX
MEDIAN AGE AT MARRIAGE BY EDUCATIONAL LEVEL FOR COHORTS OF WOMEN IN BANGALORE CITY AND TOWNS

Zone and educational level	Year of Birth of Cohort				
	1888-1897	1898-1907	1908-1917	1918-1927	1928-1932
Bangalore City					
Illiterate	14.4	14.5	15.0	15.1	15.4
Literate	14.4	14.5	14.6	15.5	15.8
Middle School	17.2	15.1	16.1	16.2	16.8
High School	—	19.4	20.0	20.0	20.0
Towns					
Illiterate	13.5	14.5	14.5	15.2	15.2
Literate	—	14.4	14.9	14.5	15.0
Middle School	17.2	15.1	16.1	16.2	16.8

Though there is no marked increase in the age at marriage for the various cohorts of women, within each cohort, age at marriage increased systematically with educational level. Here again, the position of Kerala, where age at marriages may be 19 years, indicates that the problem is more complex than it appears. Fertility behaviour is affected by a variety of factors. It could be expected that the effect of an increase in age at marriage on fertility would be to cut down the reproductive span. However, it is difficult to estimate the actual reduction in fertility occurring from a specified increase in age at marriage without knowing what changes might occur in the family building process on account of such an increase.

A study carried out by the Registrar-General in 1961 on rural and urban samples in four selected states showed an association between postponement of marriage and reduction in the number of children born. Table X presents the data obtained.

The Mysore Population Study and studies conducted in Varanasi and in central India also corroborate the fact that women marrying at higher ages tend to have lower fertility. The increase in age at marriage will no doubt give opportunity of education, perhaps employment and maturity which will condition the decision to moderate fertility.

Age at Widowhood: A general improvement in mortality conditions has resulted in lower incidence of widowhood among Indian women in the child-bearing age group. This is likely to have resulted in some increase in the fertility level. Evidence of this is available from the Mysore study where it was seen that the death of the husband before the wife passed the reproductive span resulted in reducing the number of children born to women of completed fertility by one child in the rural areas and one-half child in Bangalore city. Further, removal of taboos on widow remarriage in recent years may also have affected fertility although to a lesser extent.

Sterility: There is evidence to show that the effect of early marriage on fertility is somewhat compensated for by adolescent sterility as revealed by the long interval between age at first cohabitation and at termination of first pregnancy for women marrying very young. Comparative figures for three groups of women from West Bengal are shown in Table XI.

Data on the incidence of primary sterility as found in studies in India and abroad have been given in Table XII.

It is seen that the incidence of childlessness is relatively

TABLE XI
INTERVAL BETWEEN AGES AT FIRST TERMINATION ON PREGNANCY AND AT FIRST COHABITATION

	Ever-married women			Ever-married women aged 35 years and over		
	Bally-gunge	Beni-atola	Singur	Bally-gunge	Beni-atola	Singur
Age at first termination (in years)	19.5	18.0	16.6	17.8	17.2	16.5
Age in first cohabitation	17.2	14.4	11.4	14.4	12.3	11.0
Interval in years between termination and cohabitation	2.3	3.6	5.2	3.4	4.9	5.5
Number of women	594	505	525	474	389	400

TABLE X
AVERAGE NUMBER OF CHILDREN BORN PER EVER-MARRIED WOMAN OF COMPLETED FERTILITY IN DIFFERENT STATES BY DIFFERENT MARRIAGE AGES:

Rural: Marriage Age Below 18	Rural: 18-22	Rural: 23 & over	Rural: All ages	State	Urban: Marriage age Below 18	Urban: 18-22	Urban: 23 & over	Urban: All ages
5.1	4.2	3.2	4.7	Jammu & Kashmir	5.2	4.2	3.7	4.9
5.7	5.2	4.4	5.5	Punjab	6.0	5.5	4.7	5.8
6.2	5.5	3.9	6.0	Kerala	6.2	5.5	4.0	5.8
4.0	4.0	3.7	4.2	Uttar Pradesh	4.5	4.0	3.7	4.4

less in India than in the western countries. Part of it, in the western countries and Japan, may be due to a voluntary decision on the part of the couples. Secondary sterility i.e., childlessness after the birth of one or two or more children has been seen to increase with age at marriage, although it is not clear whether it is a function of age or parity or both. Indian studies show that the percentage of married women in the age group 35 to 44 years who failed to reproduce after one, two, three, four and five terminations were 2.1, 4.2, 1.3, 6.7 and 11.9 respectively. It is estimated from various demographic sources that the proportion of women able to conceive in different age groups is as follows:

Age	Per cent	Age	Per cent
20-24	95	35-39	70
25-29	90	40-44	45
30-34	85	45-49	14

The extent of childlessness among women in four states of India and in Japan and Sweden, who have passed the reproductive span, is shown in Table XIII, with reference to age at marriage and rural urban status.

The data indicate that childlessness is greater for women married at higher ages.

TABLE XII
PERCENTAGE ULTIMATELY CHILDLESS AMONG THE MARRIED

Source of Data		Percentage childless
Six Rural Communities (1954)		4.7
NSS India (Before 1930 marriages)		7.5
Reproductive Pattern of Bengalee women (1947-1949)		
Singur (Rural Area)		4.8
Beniatola (middle class Hindu)		6.7
Ballygunge (upper class Hindu)		4.7
Park Circus		10.5
Sample of Registrar General (1961)		
Jammu & Kashmir	(Urban)	4.9
	(Rural)	6.0
Punjab	Urban	3.6
	Rural	3.4
Kerala	Urban	2.4
	Rural	2.6
Uttar Pradesh	Urban	7.1
	Rural	6.4
UK (Marriages—1870-1879)		8.3
USA (Indianapolis marriages—1927-1928)		10.2
Sweden (1938 marriages)		10.0
South Africa (European 1926)		7.0
Norway (1930 marriages)		6.5
Italy (1931 marriages)		7.4
Japan (Fertility Survey of Japan)		14.1

Reproductive Wastage: Data on reproductive wastage is limited. The study on the reproductive pattern of Bengali women (1947-49) showed an incidence of 19.22 still-births per 1,000 live and still-births and 54 abortions per 1,000 pregnancies. The Mysore Population Study revealed a still-birth rate of 37 for urban areas and 32 for rural. The number of abortions per 1,000 pregnancies was 79 in Bangalore City and 41 in the rural areas. The Gandhigram studies indicate that among 100 conceptions 25 terminate as abortions (10 natural and 15 induced) and two as still-births. The Shantilal Shah Committee, which studied the question of legalization of abortion, estimated that the number of abortions in a population of 500 million exceeds 6.5 million (2.6 million natural and 3.9 million induced).

Biological factors: There is a general lack of information on biological factors affecting fertility. Some information is available on age at menarache, menopause, adolescent, sterility, reproductive wastage, period of amenorrhea and other related factors. Further studies on these and on factors influencing

TABLE XIII
CHILDLESSNESS AMONG WOMEN WHO HAVE PASSED THE REPRODUCTIVE AGE BY AGE AT MARRIAGE

	Age at marriage (years)							
	Below 18		18-22		22 & over		All ages	
Region	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Jammu & Kashmir	4.6	4.5	8.1	5.6	11.1	6.8	6.0	4.9
Punjab	2.9	2.6	4.0	5.7	7.6	9.6	3.4	3.6
Kerala	1.3	1.9	4.3	2.9	8.9	5.3	2.6	2.4
Uttar Pradesh	6.1	6.2	7.3	9.2	6.4	10.7	6.4	7.1
Sweden	2.0	—	6.0	—	15.0	—	12.0	—
Japan	5.0	—	9.7	—	17.6	—	14.1	—

them are needed. Fertility in India has been observed to be lower than in some other countries having the same low level

of contraceptive use. Partly this might be the result of the relatively long period of lactation and delay in resumption of menstruation after termination of pregnancy. Several Indian studies have shown birth intervals of 33 to 36 months for Indian women. Correspondingly, in Taiwan where the duration of lactation is shorter, the average birth interval of second to sixth order varies between 24 and 29 months.

Deep-rooted values: The gap between attitudes and practice seems to be due to deep-rooted values; for example, agricultural communities view children as a source of economic return and security in old age. Such values tend to change slowly. In a study on social change in three groups (pre-industrial, semi-industrial and industrial) Kuppaswamy* has recently reported that all the three groups worried about education of children and wanted their children to have higher standard of living and security of employment than themselves. This is an encouraging trend. Great understanding of these values and changes that take place is needed.

There is no doubt that a variety of measures of social policy such as taxation, land holdings, credit system, peasant proprietorship etc., have a bearing on fertility behaviour. These bring about changes in value systems. Hard core values change slowly. Local leadership can help to bring about change in values. This is a difficult area but needs further enquiry.

The Small Family Norm Committee of the Government of India has made several recommendations including insurance policy redeemable after 13 years after marriage, special benefits to those who limit their families, health, welfare and other social services for children.

It seems that memory of high death rate among children is still fresh and assurance and provision of child-care will strengthen the decision to have a small family.

Qualitative Aspects

The emphasis today is on quantitative aspects of population —on limitation of numbers. The scope of family planning however is much wider than family limitation. Family planning is a scientific approach to deal with problems of the family, contributing to richness of life in a family. There is evidence that when environmental factors are controlled genetic factors come into prominance, e.g., in London over 60 per cent of blindness was due to environmental factors 20 years ago but now incidence of about the same proportion of blindness is due to genetic factors.

Information on incidence of disease and disorders of genetic origin in India is fragmentary. But a few studies carried out show that it is by no means unimportant, e.g., consanguinity among a group of Parsis studied shows a deficiency amongst 13.5 per cent male children of glucose-6-phosphatase dehydrogenase in the red blood cells which is responsible for anaemia and jaundice following intake of certain drugs. Consanguinity (first cousin uncle-niece marriage) is reported also from some other parts of the country.

The qualitative aspect of population needs attention. The time to collect information is now.

The changing of fertility behaviour is complex. There is no single magical step. While available skills, knowledge and technology have to be applied vigorously, we should

* Kuppaswamy, B. Industrialisation and Social Change, Research Council for Cultural Studies, India International Centre, New Delhi, 1966.

appreciate the gap between professed favourable attitude and practice, which is mainly due to deep-rooted values. These values are also changing. They have to be indentified continuously. A number of apparently unrelated steps may bring about the desired results. Hard and persistent efforts are needed. The trend gives confidence of success in establishing a norm of small family size with rational and objective approach to child bearing, mobilising powerful forces of education extension, education, social policy and legislation while pursuing specific programme to control births.

Population Growth and Economic Development

GEORGE C. ZAIDAN

IT TOOK the world over 18 centuries to increase its population from a quarter to one billion persons. Today one billion persons are being added every 15 years, and the world population is growing at a rate that is 30 times as high as the average rate of growth between the first century A.D. and 1650. In less developed countries that rate is 40 times as high.

Why are these rates so high? What are their economic implications? What are the prospects of a deceleration? These are large and important questions which need to be taken one at a time; in this article I am concerned only with the second.

In attempting to indicate what we know today about population and economic development, there is one important preliminary point. Many people have been alarmed by the population explosion and some writers have made forecasts of impending famine. However, although the population of the world today is larger than ever, the standard of living of a large proportion of mankind is also much higher than at any time in recorded human history. Equally, looking into the future, it appears that the potential for economic growth is far greater than the potential for population growth. For instance, new strains of wheat, rice, and other foods have been discovered that could increase yields by two to five times over short periods of time. In contrast, the world population would only double over 35 years or so. Of course to exploit this potential would require large accompanying social changes, but the potential is there and it is immense.

But while the potential for economic growth is larger than the potential for population growth, this is not strictly relevant to the question that is being considered here. The crux of the matter is not whether the world can adjust to the present high rates of population growth but rather how much better the prospects for development would be if these high rates could be reduced. Here there are some impressive statistics. A representative sample of less-developed countries(1) shows that over 65 per cent of total investments are devoted to maintaining the level of per capita income at a constant level, whereas the corresponding figure for a sample of developed countries(2) was less than 25 per cent. To reduce this gap, a developing country can either increase its national income and/or reduce its population. In terms of the resources required to achieve a given increase in living standards, these will be many times lower if they are used to reduce fertility than in any alternative investment. This is ultimately the basis of the need for population control. Furthermore, the total costs of such a programme are a small proportion of the total expenditures on development (three per cent as a maximum), so that investment in population control can never hope to replace expenditures on economic development, but is rather a complement to the latter.

Economic-Demographic Model

Since death rates can be expected to decline further, and since emigration can rarely be influenced to a significant extent, economists have looked with particular interest at the effect of reduced fertility on economic development. More particularly the question was put: how would a linear reduction of 50 per cent in the birth rate over a period of 25 years (and constant thereafter) affect the standard of living in a developing country? The first model of this sort was applied to India(3) (and Mexico) but several other studies have been carried out since, and they have all confirmed the numerical magnitude observed in the first study. Before discussing the results of this study it may be instructive to spell out why it is that large benefits have been observed. The chart on page 529 attempts to reproduce in simplified form the mechanism through which this model operates. As can be seen from the Chart, there are three different paths through which a reduction in birth rates affect the rate of growth of per capita income. The first occurs because the reduction in fertility leads to a smaller total population. Table I shows differences in the total

TABLE I
PROJECTIONS OF THE POPULATION OF A TYPICAL LESS-DEVELOPED COUNTRY

Age group		Year 10	20	30	40	50	60
Projection A							
0-14	434(43.4)	616(44.7)	870(45.1)	1,261(45.7)	1,840(46.3)	2,655(46.3)	3.848(46.4)
15-64	534(53.4)	718(52.1)	996(51.6)	1,406(51.0)	2,003(50.4)	2,901(50.6)	4,204(50.7)
65-over	32(3.2)	43(3.1)	65(3.4)	90(3.3)	132(3.3)	180(3.1)	345(3.0)
Total	1,000	1,377	1,931	2,757	3,975	5.736	8,297
Projection B							
0-14	434(43.4)	567(42.7)	637(37.8)	676(32.9)	783(31.5)	901(30.5)	994(29.1)
15-64	534(53.4)	718(54.1)	985(58.4)	1,287(62.7)	1,573(63.2)	1,869(63.4)	2,181(63.8)
65-over	32(3.2)	43(3.2)	65(3.9)	90(4.4)	132(5.3)	180(6.1)	245(7.2)
Total	1,000	1,328	1,687	2,053	2,488	2,950	3,420

Projection A—fertility remains unchanged. Projection B—the birth rate is lowered by 50 per cent over a period of twenty-five years and constant thereafter. In both cases mortality is constantly improving. Figures are in thousands (initial population=1 million). Figures in brackets are percentages.

This article is reprinted from the March, 1969, issue of 'Finance and Development', a joint publication of the World Bank and the IMF. Mr Zaidan has specialized in the economic aspects of population trends. He is at present working on population problems in the Economics Department on the World Bank.

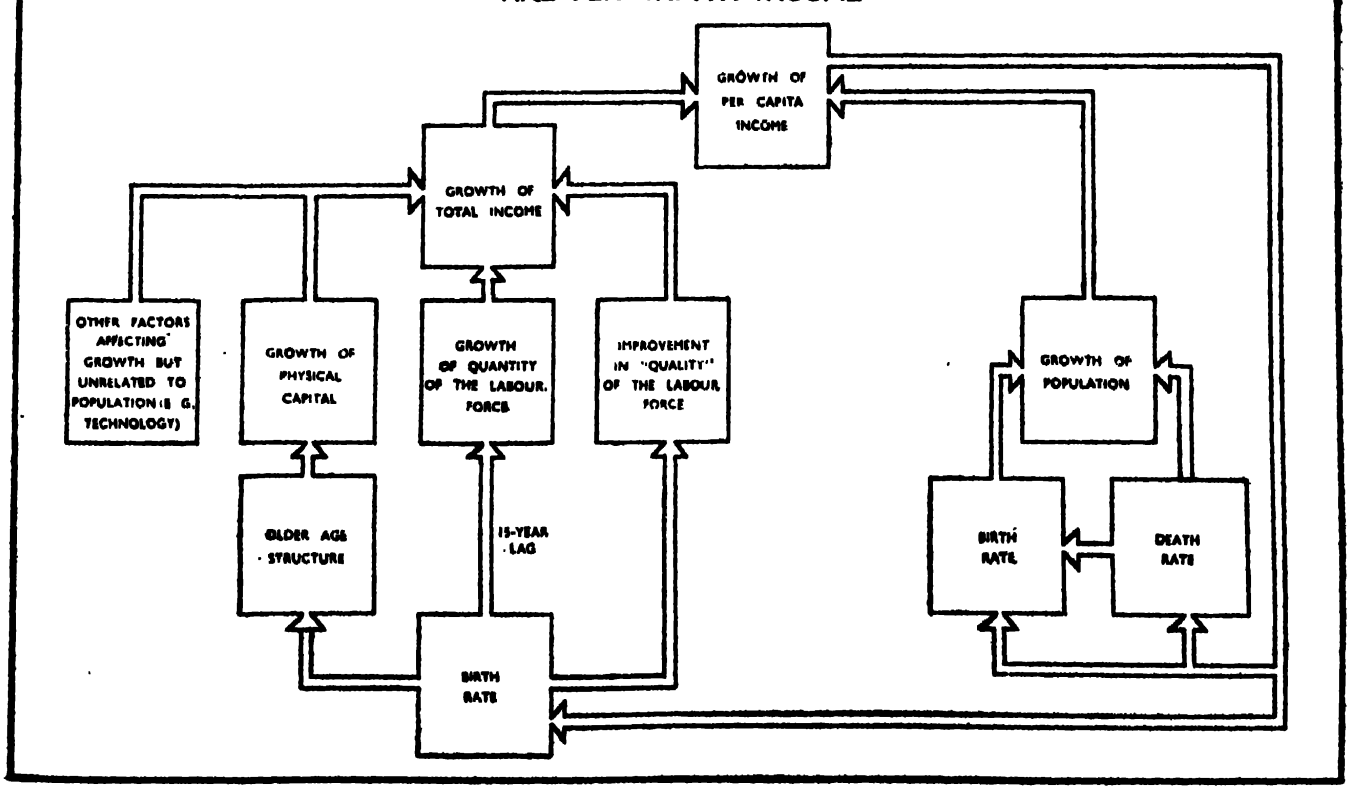
population (and its age distribution) with and without a reduction in fertility. In both examples a similar reduction in mortality is assumed, and the initial population is assumed to be one million.

The result of this smaller population is that the national income is shared by fewer persons. The national income its.lf is not reduced and may well be increased in the short run, since the reduction in fertility does not damage the productive capacity of the economy; this depends on the accumulation of capital, the quantity and quality of the labour force, technology and amount of natural resources. The reduction in fert lity is assumed to have no effect on any of these "factors of production" except the accumulation of capital and the quantity of the labour force. The first effect is positive and immediate in the sense that the savings potential of an economy increases with reduced fertility, whereas the second is negative but occurs with a time lag of 15 years or so, since the quantity of the labour force would be smaller than otherwise. These two other effects, depicted in the chart, are discussed at some length below.

The second path is via the accumulation of capital. Capital is assumed to increase because a reduction in fertility will lead to a much smaller proportion of children, as can be seen in Table I. This in turn means that the ability of a country to save is much greater, as families have fewer children, and can therefore "divert" into increasing their savings part of the income that these children would have consumed had there been no reduction in fertility. This "diversion" can either occur voluntarily through private savings, or because of the ability of the government to raise more taxes, at a given level of sacrifice. These increased savings represent a potential source for the faster growth of total income, but the question arises whether parents will in fact increase them, or whether instead they will consume all their increased (per capita) income. Alternatively, if governments raise their revenues the question arises whether this increase will go into government consumption or government savings. This question needs to be studied, but a recent investigation suggests that the "burden of dependency" is an important explanation of the high observed differences in saving ratios among the countries of the world,(4) in addition to other variables that are normally considered to "determine" savings proportions.

The third path is via the growth of labour force. Here, it is important to make a distinction between the short term (defined as the time between birth and the average age at which persons enter the labour force, or about 15 years) and the long term. In the short term a reduction in fertility has no effect on the size of the labour force, since all the persons who will be entering the labour force over the next 15 years or so have already been born today. In the long term, however, there is a negative effect, in that the labour force would be smaller than otherwise. The impact of this on the economy will depend on the particular country that is being studied: in conditions of "surplus labour" or economies where unemployment is high, such a reduction will not affect the national

THE RELATIONSHIP BETWEEN THE BIRTH RATE AND PER CAPITA INCOME



not the proportion) of investments that go into absorbing population increase. This may be of interest to donors of aid, who may be more concerned with this absolute rather than relative size. Thus countries with large populations would come on top of the list, as can be seen in Table V.

TABLE V
ABSOLUTE AMOUNT OF RESOURCES PER YEAR THAT ARE ABSORBED BY POPULATION GROWTH IN SOME LESS-DEVELOPED COUNTRIES
(Figures are in million US $ at 1964 prices)

India	5070
Brazil	2060
Mexico	1510
Columbia	720
Pakistan	680
Turkey	580
Philippines	380
Peru	340
Thailand	300
Malaysia, Morocco	250
Ghana	180
Tunisia, the Sudan	90

Note: The investment proportions required to keep per capita income at a constant level are those of Table IV. The GDP estimates are for 1966 at 1964 prices.

The previous various criteria of what constitutes a population problem emphasize that there are different ways of looking at the same phenomenon; depending on the way we look at this phenomenon, a different classification is obtained. However, more important than the particular classification one chooses is the point that by historical standards the problem is urgent in all less-developed countries. Furthermore, as death rates in these countries fall further, the problem is likely to increase, the more so among countries whose problem is at present "mild." For these reasons, it may be more relevant to emphasize the much larger difference between developed and less-developed countries, rather than the differences among the latter group.

REFERENCES

1. The sample included the following 22 developing countries. Brazil, Chile, Columbia, Ethiopia, Ghana, India, Indonesia, Kenya, South Korea, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, the Philippines, the Sudan, Thailand, Tunisia, Turkey, Uganda, and the United Arab Republic.
2. The United States, Canada, Australia, and 16 West European countries.
3. The discussion of this whole section is based on the work of A.J. Coale and E. Hoover, "Population Growth and Economic Development in Low Income Countries: A Case Study of India's Products" (Princeton, N.J., 1958). See also A.J. Coale, "Population and Economic Development in the Population Dilemma" (Prentice-Hall, N.J., 1963), edited by P. M. Oauser. Tables I, II, and III of this article are taken from this paper.
4. N.H. Leff, "Population Growth and Savings Potential," unpublished preliminary report of the Office of Programme

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5. It may be important to note that the whole measurement of these economic benefits is from the standpoint of a country. At the family level the calculus of benefits and costs of an additional child may be very different. This is a crucial distinction in considering policies designed to reduce fertility.

6. In his latest book, 'Asian Drama', G. Myrdal is critical of these omissions and of the Coale-Hoover approach in general. His criticisms, however, are directed at the accuracy of the model, and in particular the narrow range of its results. But Myrdal accepts the conclusions that the economic effects of a fertility reduction are "favourable... and that these effects are very considerable and cumulative, gaining momentum over the years" (page 1467).

7. In terms of income "per equivalent adult consumer," the gain would be smaller since a family of six would have a smaller proportion of children.

A House in Disorder

Our Special Correspondent

THE STATE governments have been presenting to their legislatures in recent weeks their budgets for 1969-70 without making any serious effort to raise additional taxation.

The problem is particularly acute in the case of the Government of Kerala as even with a Plan outlay of Rs 37.17 crores against Rs 46.60 crores in 1968-69 it has been estimated that there will be an overall deficit of Rs 20.06 crores. There will be a deficit of Rs 11.43 crores on revenue account in spite of an increase in receipts to Rs 135.27 crores from Rs 132.02 crores in 1968-69 (revised). This is because of a big increase in expenditure to Rs 146.70 crores from Rs 136.56 crores due to subsidised sales of rice, payment of additional dearness allowances to employees and new commitments in respect of completed Plan schemes, the last mentioned item alone accounting for an additional expenditure of seven crores of rupees.

The revenue deficit is sought to be reduced by the levy of additional taxes which will fetch Rs 2.25 crores, the sales tax on soaps, folding umbrellas, chemical fertilizers and other items being raised. There will be an education cess at 2.5 per cent of the annual rental value of properties and buildings and an admission fee of one rupee for all students in order to compensate the losses sustained by the extension of free education in the higher classes in schools. The anticipated revenue may not be fully realised as the sales-tax rates are proposed to be modified in respect of some commodities. The government's effort to secure additional amounts through the introduction of horse races, the promotion of corporations for running chit funds, raising plantation crops and the establishment of distilleries in the public sector may not also be immediately helpful as the new schemes will assume large dimensions only over a period. Actually immediate credit has been taken only for a small sum of Rs 35.50 lakhs in 1969-70. The deficit in the revenue budget is not, therefore, likely to be very much reduced especially if expenditure tended to rise. There is, however, the prospect of larger receipts from the centre which may amount to five to six crores of rupees.

Even granting that with a bigger devolution of revenues from the centre the look of the revenue budget can be made less depressing, the question is how the Government of Kerala can hope to implement its Plan of Rs 460 crores. The outlay on Plan schemes will be only Rs 37.17 crores in the next financial year against Rs 46.60 crores in the current year. It has been indicated that in view of the paucity of resources only the continuing schemes will be implemented and work on entirely new projects will be taken up only after the required resources can be mobilised. Even taking into account the expenditure on continuing Plan schemes that has been debited to the revenue budget the total outlay on an adjusted basis will still be less than that incurred in 1968-69. What is more, there will be a gap of Rs 8.63 crores in the capital budget. It is amply clear that the state in its present predicament is not in a position to mobilise resources from its own sources for implementing Plan schemes. Central assistance will be fairly large at over Rs 34 crores but it is complained that the effectiveness of this assistance has been whittled down by the necessity to repay to the centre against old debts as much as Rs 21.48 crores against Rs 16.33 crores in 1968-69. There will certainly be some relief as a result of the rescheduling of debt repayments. But this will at best reduce the gap on capital account by five crores of rupees.

Even assuming that the larger receipts as the share of tax revenues and a staggering of debt repayments will reduce the overall gap of Rs 10-12 crores there will still be a residual deficit of Rs 6-7 crores, after taking credit of revenues from fresh taxes. There is no room for manoeuvrability as the deficits incurred in earlier years have been adjusted with the liquidation of investments in securities held previously and it has been indicated that there will be a minus cash balance of Rs 2.42 crores on April 1, 1969.

As matters stand it will not be possible to execute a Plan of more than Rs 250 crores even with liberal central assistance against a proposed outlay of Rs 460 crores in the draft Plan.

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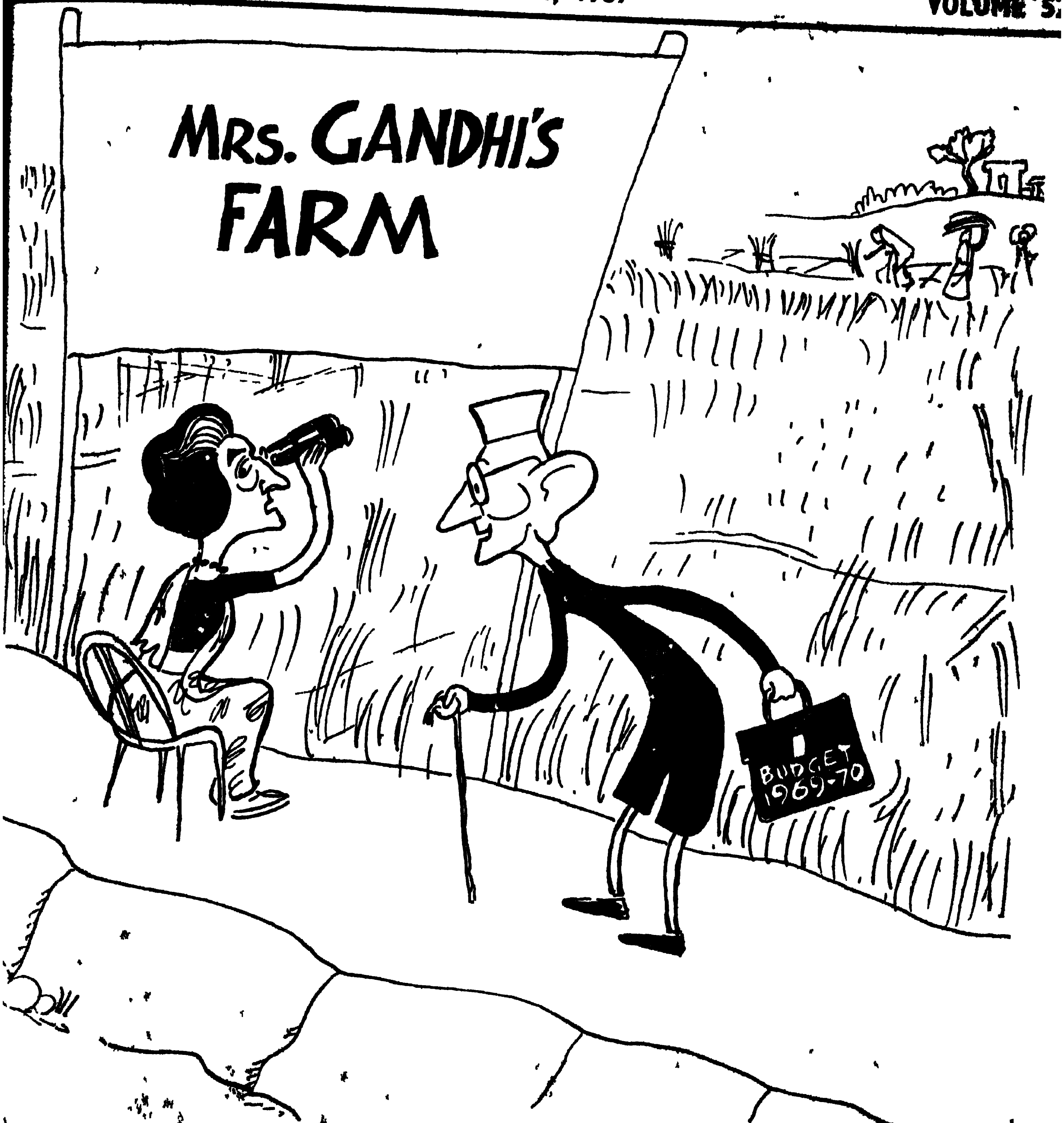

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The Ball in Her Court

A LONG-ENDURING boil in the Congress body politic has burst. The wound could be cleansed, dressed and rendered asceptic; or, it could be allowed to become a festering sore. Mrs Indira Gandhi must make her choice.

At the time of writing, the crisis in the Congress parliamentary party over the issue of discipline has not been resolved. The chances are that things may grow worse before they turn better. Nevertheless it is not entirely a sad or a bad thing that what has happened has happened. Mr Chandrashekhar's sustained and systematic vilification of Mr Morarji Desai crossed even the outer limits of outrageous mendacity when he charged the latter with having manipulated last year the tax scheme of the central Budget for 1968-69 in order to provide financial benefits to a particular business house. But for the wildly extravagant excesses committed thus by Mr Chandrashekhar the ugly and unworthy manoeuvres which for some time now have been working to undermine the prestige and functioning of the present government at the centre would have continued with their destructive ways, without being called out into the open to face the aroused conscience of the Congress parliamentary party. It had always been apparent that the fifth column working for the disruption of the present leadership in the central government would some day over-reach itself and thereby render itself vulnerable to a frontal onslaught by the life forces in the Congress party. The issue now is between the survival instincts of the Congress party and those who, from within its ranks, have for reasons of their own been playing a game of brinkmanship with those instincts.

In other ways too the Chandrashekhar episode has helped to restore perspective. It is now easily seen that the campaign of calumny which is being waged against the Birla group of companies and the malicious personal attacks made on the members of this business house are basically a part of the larger political conspiracy which is primarily concerned with the power equations within the Congress party. The relevant proceedings in parliament as well as a series of judgments of High Courts and other courts have amply proved that the charges of illegal business practices so freely made against this business house have been made without warrant, in a highly irresponsible manner and from ulterior motives. It has been even more clearly established that the artificial demand for a commission of inquiry into the affairs of this business house—a demand which is being kept alive by desperate and disreputable tactics—is frivolous in its own context, but of sinister significance in terms of the disruptionist activity raging in the bowels of the ruling party. The business house which has been so cynically involved in the disgraceful power game which is now being played within the Congress party is, thus, sought to be used as a pawn by some of the most unscrupulous political adventurers and opportunists who have been allowed to ply their murky trade in the political history of our country in our times.

The implications of the acts of indiscipline on the part of Mr Chandrashekhar are, therefore, not simply those of procedural proprieties. What the Congress party has been called upon to face is a strategy of calculated defiance which, through a deliberate series of repetition and aggravation, has been brought to the climax of an open demand that the Congress party should divide and thereby destroy itself. This places the ball firmly in Mrs Indira Gandhi's court. The nation will watch with interest how she plays it.

A Grand Design for Osaka

IN DECEMBER last year a decision was taken by the then Ministry of Commerce of the central government to participate in Expo'70 which the Government of Japan is planning to hold in Osaka next year. This showed that the Government of India had learnt at least one of the lessons taught them at Expo'67 which was held by the Government of Canada in Montreal two years ago. We wonder whether the other lessons of that experience have also been learnt.

It is true that our pavilion at Expo'67 was a moderate success at least in comparison with the Government of India's earlier experiences in that line which had certainly been far less satisfactory. It is also true that, despite competition of a very high order, our pavilion attracted a fair attendance and that the foreigners who went through it were generally inclined to praise it for its aesthetic features as well as its informativeness. Nevertheless the fact remains that our pavilion at Expo'67 in Montreal did fall short of what this country ought to have done and could have done on an occasion of that kind. One of the reasons of this imperfect performance, of course, was that the decision to participate in it was taken by the Government of India belatedly. This left the planners and the organisers much less time to carry out their enterprise than they should, in reason, have been allowed. This particular blunder, as we noted at the outset, has fortunately been avoided so far as Expo'70 to be held in Tokyo is concerned. Want of time, however, was only one of the factors responsible for this country not putting its best foot forward in Montreal in 1967. There were also quite a few other reasons and, now that the Government of India has allowed itself sufficient time to plan and organise its participation at Expo'70, it is very important that this advantage should be fully utilised by it for avoiding the pitfalls of 1967. This time they will not have the excuse that things have had to be done in a hurry.

The central weakness of our pavilion at Montreal was that it was the bastard offspring of the unimaginativeness of the bureaucrat married to the undisciplined inexperience of the amateur. The then Ministry of Commerce should have had better sense than to trust an effort of this kind to its Directorate of Exhibitions. This organisation may be good enough for its routine business of organising our country's participation at trade fairs held abroad in the normal course, but it certainly does not have the expertise or gifts and talents which alone could have done justice to occasions such as Expo'67.

Worse still, this Directorate does not seem to know either where to seek assistance. Therefore what it did in 1967 was to rush for help to the (more or less) honorary workers of certain organisations or institutions which have had some success in retailing handicrafts through fashionable shopping centres. It is possible that these worthy persons, mostly women are reasonably good in their own chosen fields of work, but there was certainly no warrant for the then Ministry of Commerce to believe that they had qualifications for delivering the goods at Montreal. The predictable result was that although a large number of no doubt well-meaning and hard-working individuals had laboured according to their lights, the Indian pavilion at Montreal failed to achieve the kind of distinction which could have been its under more auspicious circumstances.

We submit that here is an important moral for our government to appreciate in planning our country's participation at Expo'70 in Japan. The moral is that the grand design for our pavilion should not be made the responsibility of the bureaucrat or the amateur. Its formulation should be entrusted to a panel of men and women soaked in the spirit of our historic, cultural and artistic traditions and imbued with a feeling for the living and contemporary India and its pursuits and achievements in the economic field and the arts. This panel should be charged with the task of conceptualising the personality of our people and institutions and projecting it against the universal canvas of the basic instincts and impulses of the human race "to strive, to seek and not to yield." Such of us as have had the good fortune to see the outstanding national pavilions put at Expo'67 in Montreal by countries such as Czechoslovakia can have no doubt that this is the way in which a government or a community should organise its participation in events of this order. In the ordinary course, our country, even as other countries, has enough opportunities to exhibit or hawk the wares of its commerce abroad at the usual trade fairs and the like. At Canada Expo'67 we should have aimed at something better, but did not. There will be no justification for the government to fail again at Japan's Expo'70.

Once the grand design for our pavilion is worked out in broad outline by the master panel suggested by us, it will be necessary for the new Ministry of Foreign Trade and Supply, which will now be in charge of the project for one of our pavilion at Expo'70, to set up in consultation with this panel a sufficient number of small committees of experts in the various lines concerned to draw up in concrete detail individual plans to fill the outline of the grand design and give it colour and substance. It is true that an effort on this scale will cost money, but an enterprise such as this, if it is to be attempted at all, is worth doing well. We are under no compulsion to participate in Expo'70 and if we do participate—and in our view it is right that we should do so—there should be no grudging of the expenditure that may be called for. In any case, it should certainly be possible for the government to make its rupees go farther than they usually do if the waste of public funds, so much of which is so easily avoidable, could be reduced to the minimum where this project is concerned.

At this point, we would like to enter a *caveat* against the Ministry concerned indulging in the kind of favouritism and nepotism which were a notorious characteristic of the selection of personnel for our pavilion at Expo'67 in Montreal. The way in which friends and relations of government officials were treated to a trip abroad at the taxpayer's expense was a minor scandal. For instance, the young women who were selected to preside over the exhibits at the pavilion or act as guides to visitors were no doubt charming creatures and esteemable in other ways too. But they certainly did not have the background or the training needed for the kind of work they were expected to do. Even the physical strain of the strenuous months of Expo'67 was too much for most of them, and in the closing stages of the pavilion most of them found themselves reduced to a distraught and distressed existence. It is possible that most of them found that

their foreign travel and holiday were not as much of a bargain as they, at the outset, might have imagined them to be. We suggest that the Ministry of Foreign Trade and Supply solemnly resolve to recruit at all levels only such men and women as are qualified for the jobs they will be called upon to do. There is in our country a number of museums, art galleries and sophisticated retailing organisations specialising in the products of native industries and handicrafts. Surely, the more able among the men and women working in these establishments should be given preference over girls newly come from college whose only qualification often is, apart from looks, a wise choice of parents.

An attractive feature of the more outstanding pavilions at Expo'67 at Montreal was that they attempted to tell their respective stories through moving light and sound. They ruled out techniques of static display in favour of a flowing rhythm of dynamic art forms. We urge that this approach should be adopted towards our pavilion at Expo'70. For instance, our silks, jewellery and the rest may be displayed with the aid of live models in brief fashion shows repeated at intervals throughout the hours of the exhibition rather than kept arranged in showcases. This is only one detail, and we are sure that, with the adoption of an imaginative approach, the planners and organisers of our pavilion at Expo'70 will be able to invent many striking modes of spelling out the message which it should be the aim of our pavilion to put across at this great international event.

The Commissioner General for Expo'70 has just invited design concepts for the Indian pavilion from architects in the country, the purpose being to select, on the basis of the entries received, an architect for designing the Indian pavilion. As an earnest of the government's desire to avail itself of the best talents available in the nation, this move is to be welcomed. We feel, however, that an architectural design for the pavilion can properly be decided upon only after the basic theme of the pavilion has been settled by a competent body, such as the master panel we have suggested. The architect's concept after all should subserve the more fundamental grand design for the project as a whole. There is, we fear, a suggestion of the cart being placed before the horse in this move to settle the architectural design without an attempt first having been made to outline the grand concept of the pavilion itself. It is perhaps not too late for this point to be examined.

The importance of the basic grand design for the pavilion being formulated first, so that it may provide the framework for the detailed execution of individual details, architectural or other, is a point which cannot be overemphasised. There is in the history and literature of our land, its music, architecture, sculpture, painting and other arts and graces of life, the variety and versatility of its people and their ways of life, the glories of its handicrafts, the new horizons of its agriculture and the surge of its modern industry, a wealth of intellectual and aesthetic resources for projecting the image of our civilisation and its message to the men and women of other lands. Let us attempt to do this and no less at Expo'70 in Osaka.

Since writing this, the government has come out with some information regarding its plans for participating in Expo'70. An advisory committee has been set up with Mr K. B. Lall, Secretary in the Ministry of Foreign Trade and Supply, as chairman, to provide guidance on various aspects of our country's participation in the exhibition. This committee consists of representatives of the Federation of Indian Chambers of Commerce and Industry, the Associated Chambers of Commerce, the All-India Newspapers Editors' Conference, the National Design Institute, the National Centre for Performing Arts, the Indian Society of Advertisers, the National School of Drama as well as the various ministries and departments of the government. The Director General of the Indian Institute of Foreign Trade, a senior government officer, with an outstanding record in administration, particularly in the field of foreign trade, has been appointed as Commissioner-General for Expo'70.

While we welcome these steps as an earnest of the government's desire to ensure effective participation by this country in Expo'70, we are not convinced that the advisory committee as now constituted can adequately fulfil the function of the master panel which we have just recommended. Inviting the various organisations to nominate their representatives to the committee was, no doubt, a democratic procedure. But it was probably not the best way of assembling a pool of gifted or talented men, which is what we have in mind when we recommend a master panel. We believe that the government should have the courage to shoulder more direct responsibility in constituting a properly qualified master panel.

The basic concept of Expo'70 is to be "Progress and Harmony for Mankind". The Indian pavilion will have to evolve its own theme in the context of this concept. The government proposes to develop this theme in terms of a modernising and industrialising India against the background of its heritage of art, culture, and traditions. In our view, this approach seems to be too general and vague and we have a feeling that if it is to be properly defined and delineated, the government cannot afford to dispense with the services of the kind of master panel which we have proposed. The present advisory committee is a poor substitute.

Despondency in Business: Why?

COMING SO soon after the senseless destruction by Shiv Senitis in the heart of Bombay last month, this year's annual meetings of the Bombay Chamber of Commerce (BCC) and the Indian Merchants' Chamber (IMC) were bound to focus public attention on these incidents, if only to draw lessons therefrom for the future, and they did so. The presidents of both BCC and IMC, Mr N. M. Wagle, and Mr Bhogilal dwelt on the unfortunate episode. To people in Bombay who generally "tend to believe that things are always much better ordered here than elsewhere", this came as a great blow, but Mr Wagle hoped the blow was only to "our complacency and not to our confidence". He felt that there was imperative need for "collective resolve and action to ensure that this city shall never again have to submit to such senseless violence and destruction". This feeling was wholeheartedly endorsed by the chief guest on the occasion, Mr V.P. Naik, Maharashtra's Chief Minister who held out solemn assurances that the recurrence of the orgy would be avoided. But both Mr Bhogilal and Mr H.V.R. Iengar, who inaugurated the IMC annual meeting, spoke at some length on the incidents and gave expression to view points which many more also doubtless share.

"The incidents in Bombay" Mr Bhogilal said, "have vividly brought out the fact that we have yet to learn to think in terms of India as a whole, that in whatever regions we may have been placed by accident of birth, we all belong to the great political entity that is India, for whose prosperity we must learn to subordinate regional and sectional interests. It is certain that continuing incidents of lawlessness in various parts of the country cannot provide a healthy climate in which one can be enthused to make concentrated effort to tackle the many economic ills that are plaguing the country". Mr Iengar, on the other hand, went to the root of the matter. Describing the happenings as " an utter disgrace to India", a disgrace "not merely because they showed that in a great metropolitan city like Bombay, the headquarters of government, gangster elements, by whatever high sounding names they call themselves, could loot, burn and destroy as they liked, but because of their political implications", he went on to observe--and this is particularly noteworthy coming, as it does, from so able and seasoned an administrator— "one of the greatest mistakes which Jawaharlal Nehru and his colleagues at the time committed was to agree to the division of India on a linguistic basis". Even more so was his poser whether it is really too late to re-think this problem? His own answer was: "*provided* the politicians are honest and really mean what they publically profess, *viz.*, that they are Indians basically interested in the integrity of the country. I feel it is still time to go back on the concept of a linguistic division of India and to rearrange the pattern of administration on a less emotional basis which will not tend to destroy the country's unity." All right thinking people would devoutly hope for such a consummation, but if even Nehru could not bring this about, and that too when all the states were controlled by the Congress, it is a moot point whether his daughter would be able to achieve it now when not all the states are under Congress rule. But the thought is utterly sound and wholessome and is worth all sincere efforts to translate it into action.

The two presidents between them reviewed the entire gamut of economic problems, namely, agricultural development, industrial recovery, price stability, labour policies with particular reference to productivity, exports, foreign capital and fiscal strategy, among others. While both recognised the recent gratifying developments on the economic front, they felt they could not but caution the authorities against undue complacency, on the one hand, and unrealistic ideological essays, on the other. In agriculture, for instance, there have been, as Mr Wagle noted, some "disturbing indications" of opposition to the policy of selective concentration on inputs on irrigated land on the score that such makes the relatively rich farmer even richer. Similarly, employing the smokescreen of concentration of economic power, even well-meaning schemes put forward by industrial groups which have amply demonstrated their ability to deliver the goods are tossed from pillar to post involving exasperating delay, or shelved most unceremoniously. Hence the mood of despondency among businessmen and industrialists. Nor have political trends been such as to put heart into them. Indeed, as Mr Iengar observed, "recent political events have thrown up considerable doubts as to whether the very basis of a sound industrial economy, namely, a settled administration and the maintenance of law and order, may be depended upon in the future as axiomatic in all parts of the country."

Mr Iengar really rendered a signal service to the business community by devoting his inaugural address to the IMC to an exhaustive examination of the role of the business community in the country's economic development and the reasons for the prevailing despondency. This is timely, even as it is necessary, for, as he himself said, an image has been sought to be created that the business community is grasping and selfish and altogether unpatriotic. The profit motive is sought to be described as a

"Let me find out some material to support my allegations."

matter for scorn and contempt. While the hearts of politicians (who have a ready and often invulnerable platform) are supposed to bleed for the starving millions, businessmen are depicted as "wholly unmindful of their social obligations to the community." He began by referring to the remarkable contribution made to industrialisation in pre-Independence days by stalwarts like Jamshedjee Tata and, later, by Walchand Hirachand and to business by that versatile veteran Purshotamdas Thakurdas and K.R.P. Shroff who guided the destinies of the Bombay Stock Exchange longer than the president of any other stock exchange in the world. Then he spoke of the contribution made by the business community as a whole, both before and after Independence. Here he astutely alluded to an aspect that is seldom realised or recognised, namely the part played by the Bombay Planners. To "those who traduce Indian business", said Mr Iengar, "let me point out that it was in this document (The Bombay Plan) that the idea was propounded that there was need for social control of business. The Bombay Plan went to the extent of suggesting that there should be power in the hands of government to regulate dividends and to appoint government directors on boards of management." As he aptly added, "it is impossible to imagine anything more objective and more passionately indicative of a desire to serve public good than the proposals contained on this Plan." Following Independence and particularly during the second and third five-year Plan periods, Mr Iengar showed, by quoting facts and figures, how industry took quick advantage of the changes in industrial policy of the government and contributed to increased national output and additional employment.

All this is either conveniently forgotten or ignored. The persisting calumny campaigns against businessmen has led to disappointment and despair. The fundamental reason for the economic despondency today, according to Mr Iengar, is the growing rift between the government and the private sector, although the former is never tired of professing that it has accepted mixed economy and that there is a definite place for the private sector. This is because the government tends to view all businessmen with suspicion and adopts negative policing actions intended to meet what are regarded as the evils of the functioning of the private sector. Mr Iengar did not hold the brief for any businessman or group of businessmen, least of all for those who might be guilty of having evaded taxes, adulterated life-saving drugs and gathered or distributed black money, but he maintained this did not apply to every businessman and, therefore, rightly questioned the justice of tarring all businessmen with the same brush. "To expect the businessmen in India to consist one hundred per cent of the utmost integrity and dedication", he said, "is to expect something which is, unfortunately, just not possible in this mundane world." Dividing businessmen into three groups, namely those that are outstandingly able and dedicated, those that are downright wicked and anti-social and the large mass of those in between who try to do a decent job of work but who may "sometimes be tempted to operate a little close to the wind", he blamed controls for corroding character. It is the universal experience all over the world, he pointed out, that the tighter the extent of official control, the greater the tendency to evade it. Mr Iengar also drew attention to the relatively greater havoc that controls occasion during peacetime than during a war for survival, especially in a democratic set-up. To impose controls is like putting temptations before the people and expecting all to be able to overcome them, in the way that only great men such as Mahatma Gandhi who had the ability to discriminate between positive virtue and negative virtue and the courage of conviction to practise the former, could do. The tragedy is that, although in theory, the government accepts the need for reduction of controls and their simplification, in actual practice, it is reluctant to take any concrete steps in that direction. Mr Iengar further drew attention to the astonishing proliferation of the authorities to be consulted which has led to the virtual clogging of the administrative machinery. This is one of the main reasons for the inordinate delay in New Delhi today. Another administrative reason for delay he referred to was "the sheer lack of desire to reach decisions, lest an odd one here or there be a wrong one and be consequently pilloried in the Public Accounts Committee or in Parliament."

What, then, can be done to meet the situation? The answer, in Mr Iengar's own words, which cannot be improved upon, is: "If the organisation of government is simplified, if people are encouraged to take decisions, with the confidence that *bona fide* acts will be fully and strongly supported in Parliament against any unjust crit ism, if suspicion of the private sector gives place to full and friendly cooperation where *bona fides* are in no doubt, then the business community can play a very great part in quickening the process of industrial development." This means that all the three - the government, the people and the business community - have to play ball. After listening to Mr Wagle and Mr Bhogilal, no one need doubt whether the business community will play its part. It will not only play its part, but is determined to play it well. It is, therefore, for the government to shed its unwarranted suspicion of all businessmen, shake off its ideological inhibitions and strive sincerely, hand in hand with the private sector, for the further economic development of the country. To let go the present opportunity is to let down the country, perhaps irretrievably, and posterity may not pardon the powers-that-be for the Himalayan lapse.

Eastern Economist 25 Years Ago

MARCH 17, 1944

The Finance Member's reply to criticism in the Assembly of government's failure to organize the production of consumers' goods within the country itself instead of importing them indiscriminately was as unconvincing as it was silly and sarcastic. Confronted with the fact that the war has been on for more than four years and that government should have had the elementary foresight to arrange for the import of plant in the earlier stages, he remarked with typical bureaucratic nonchalance: "Why was it not done, a hundred years ago? I am afraid I have had quite enough to do during my lifetime and during my own quinquennium", and refused to be "carried back to my ante-natal delinquencies." Leaving aside for the moment Sir Jeremy's ante-natal delinquencies and the delinquencies of his predecessors who have for over a century kept the imperial tradition and this country in a state of serfdom and squalor, can Sir Jeremy claim with a clean conscience that during his own term of office, which thanks to his deflationist zeal has now been extended, he has done his best to organize a full-scale production drive adequate to the necessities of the situation? On the contrary, by systematically spoiling every industrial opportunity that his country has had Sir Jeremy and his government have brought about a hopeless situation.

The New Political Postures

DR A. APPADORAI

The first two articles by Dr A. Appadorai in this series, captioned "The Mid-Term Elections" and "After the Elections" appeared in this journal on February 14 and 28.

THE FORMATION of United Front governments in West Bengal and Punjab with twelve constituent units in the former and two in the latter, and the precarious working majorities which the Congress as the largest party has been able to muster in Uttar Pradesh and Bihar pose a number of problems for the country's political system. The earlier these problems are identified and thought is bestowed on how to solve them, the better it will be for the health of the body-politic.

The first of these problems obviously is the multiplicity, even plethora, of political parties in all these four states. Thus in Bihar 315 seats are distributed among 15 parties, in Punjab 103 among nine parties, in UP 420 among 10 parties, and in West Bengal 280 among 19 parties; the seats won by independents have also to be taken into account. Some of these are all-India parties such as the Congress, the SSP, the PSP, the CPI, the CPI (M) and the Swatantra; others are local parties such as the Akali Dal in Punjab, the Bhartiya Karanti Dal in UP and Bihar, the Indian National Democratic Party in West Bengal.

A Mixed Evil

The multiplicity of parties by itself is not an unmixed evil. It mirrors the political views of the electorate better than say, the two party system, and in a heterogeneous society, as in this country, it helps to channel divergent political opinions through recognized political parties instead of driving them underground. It also encourages independence of judgment of the citizen as you are not compelled to merge yourself in groups with which you do not wholly agree.

But this is about all that can be said about the advantages of multiplicity of political parties. The defects of this phenomenon under a system of parliamentary executive are so great that they relegate the advantages to the background. The foremost among the defects is the impact multiplicity of political parties has in the stability of the executive. That modern government needs stability of the executive goes without saying. The problems of government today are so complex, with a developing technology and the growing demands on government for the provision of social services, that careful planning and coordination is a must; unstable governments cannot adequately perform this task. That multiplicity of parties makes for instability is a lesson we draw not only from France, the classic home of the multiple party system, but also from the politics of the four states in which mid-term elections were held recently. The existence of numerous parties encourages defections. Where united fronts were formed after the last general election, as in UP, Punjab and West Bengal, the lessons are there for all to see. It may be that coalitions are inevitable in certain political conditions. But even then a reduction in the number of parties is to be hoped for. The worst result of the kind of coalitions attempted in West Bengal and UP in 1967 is that the time and energy of ministries is spent just on ensuring survival; problems of administration hardly receive the attention they deserve and development suffers.

Above all, the multiplicity of parties is based on a wrong philosophy of the party system. Parties are a necessary institution in a democracy, but democratic institutions must not only provide for the reflection of organized political opinion but also for effective government. The multiple-party system not only enfeebles the executive, but also gives a disproportionate power to self-seeking minorities. It also turns important branches of legislation into class bribery and thus lowers the tone of public life.

There is no space here to discuss what steps can be taken to reduce the number of parties; the ultimate remedy lies in the hands of (a) the political elite who should realize the value of stability in administration, and (b) the electorate, who in their larger interest, should learn to refuse to vote for mushroom parties.

The tendency to form regional or state parties, illustrated even before the mid-term elections by the formation of the DMK in Madras and the Akali Dal in Punjab, is now more marked. The BKD in UP, the Soshit Dal in Bihar and the Indian National Democratic Party in West Bengal are examples. How does this trend affect the political system ?

Dangerous to Unity

Political observers are inclined to treat this as dangerous to the unity of India. There is that danger, but, I suggest, not necessarily. In a federal state, the constitutional autonomy vested in the units has always to be reconciled to the unity of the whole ; the balance of unity and diversity depends essentially on the sense of constitutionalism developed among the political elite. The all-India political parties typify this sense of unity. As against this, local parties have one advantage: their formation is a recognition of the fact that state problems and policies are not *necessarily* identical with the all-India problems and policies; they may have to be tackled according to local conditions. Thus the problem of communal unity in Punjab is, *prima facie*, tackled well by the formation of the Akali Dal-Jana Sangh alliance. This is not to say that all-India parties have no place in the states. But one need not be too alarmed about the formation of local parties. The sense of unity of all-India is a function of several factors which have to be assiduously cultivated by the governments and people in all states ; the formation of local parties need not necessarily frighten us.

The formation of coalition governments in West Bengal, Punjab and Bihar is a trend which, according to many political observers, is likely to be repeated in other states after the next general election. Every student knows that coalition governments have some inevitable defects as indeed was well illustrated in UP under the Samyukt Vidhayak Dal Government before the mid-term election—instability, defections, political manoeuvres to gain sectional interests and the inadequate attention paid to efficient administration on account of the larger attention paid

by party leaders to maintain themselves in office. But if the trend is inevitable, the best thing is to evolve techniques and conventions by which coalition governments can be made to work as efficiently and smoothly as possible in the circumstances. What coalition governments must learn is that they can continue only on the basis of promoting legislation on measures which have the greatest common measure of agreement among the constituent units; this Greatest Common Measure (GCM) must be evolved *before* they form the government and a coordinating committee headed by the Chief Minister must watch carefully that the GCM is observed and implemented.

The last point that I would like to touch upon is how, with a variation of parties in power at the centre and in the states, the relations between the centre and the states are affected. Experience suggests that on the appointment of governors and the maintenance of the constitutional powers vested in the centre under Articles 200, 356 and 365 of the Constitution, conflict is likely; Mr E. M. S. Namboodripad from Kerala has raised the question of the states' control over the all-India services working in the states. The National Convention has suggested the constitution of an inter-state Council under Article 263 with power to harmonise relations between the centre and the states. Mr M. C. Chagla considers that a presidential form of government may well be substituted, at any rate in the states, for parliamentary executives. There is no space here to discuss any of these suggestions. I hope to discuss some of them in later articles. It is sufficient to say, for the time being that the revision of the Constitution raises fundamental issues which are worth careful consideration at the hands of all those who are interested in the smooth working of our democratic government in the federal context.

The Task Before Mukherjee Ministry

THE EVENTS leading to the formation of the United Front Ministry in West Bengal have clearly demonstrated not merely the wide ideological differences among its constituents but also the lack of faith each has in others. Even so, the Mukherjee Ministry can do some good to West Bengal provided it tackles the state's problems realistically, seeking the co-operation of all sections of the people. When the United Front took over the administration in March, 1967, the economy of the country in general and of West Bengal in particular was in the grip of recession. Now the economic situation has improved distinctly in many respects and if only the United Front governs wisely and well, it can contribute substantially to the betterment of not only the economy of West Bengal but even of the eastern region as a whole.

Elementary Responsibility

One of the first tasks of the government must be to maintain law and order firmly and impartially. It was the failure to discharge this elementary responsibility that brought disrespect to the previous UF government and ultimately caused its downfall. Nothing is more important for trade and industry to flourish than a feeling of absolute confidence in the impartiality of the administration, especially of police. The Marxists have expressed their desire "to shake up" the police and the administration. If it means ensuring greater efficiency and incorruptibility, it is to be welcomed. But if, as is generally feared, the "shake-up" is only to serve the interests of the Marxists, the government will be hastening its doom.

The view has been expressed in certain quarters both in this country and abroad that industrialists in West Bengal have become somewhat nervous because of the return of the UF ministry. It is true that the previous UF ministry let loose a reign of terror by encouraging gheraos but there is reason to hope that its leaders have now become wiser. The industrialists can be expected to offer their constructive co-operation to the ministry so long as it continues to pursue policies conducive to economic development. West Bengal industrialists have been seeking to set up joint ventures in distant parts of the world, including many countries in Africa, West Asia and South-East Asia where political conditions are far from stable and where the administrative machinery is yet to acquire a high degree of efficiency. There is no reason therefore why industrialists should hesitate to invest in West Bengal if the government gives them reasonable facilities and incentives.

The Mukherjee Ministry would do well to undertake a quick study of the incentives offered by the different state governments to promote industrial development. Many states have recently publicised widely the measures they have adopted, or are going to adopt, to speed up industrial expansion. The Mysore Government, for instance, has identified eleven "growth areas" for the exclusive development of industries, large, medium and small-scale. These areas are also to be utilised for the dispersal of industries. The incentives offered include contribution towards the cost of feasibility studies, reduction in electricity tariff, concession in sales tax and octroi duty and help in marketing the products in the initial stages. Similar incentives are also offered by Maharashtra, Orissa, Tamil Nadu, Andhra Pradesh and to some extent even by Kerala. The UF government should try to give the maximum help to speed up industrialisation which is the only way to tackle the chronic unemployment problem. Its immediate task must be to enable the closed factories to resume working and assure all concerned that its labour policy will be guided by justice and fair play, so that both employers and labour will work in harmony to promote production and prosperity.

Improvement of Greater Calcutta is another urgent task facing the UF government. Many elaborate schemes have been drawn up by the Calcutta Metropolitan Planning Organisation for the betterment of Calcutta. What is now wanted is their effective implementation. The centre should actively assist West Bengal in this programme. It will be interesting to watch the reaction of the Mukherjee Ministry to getting assistance from the World Bank and the Ford Foundation for Calcutta's improvement. Many of the schemes relating to water supply, sewage and drainage, traffic and transport and housing have been drawn up by the experts of the Ford Foundation. Mr McNamara during his recent visit to Calcutta was very sympathetic to its difficulties and

promised help from the World Bank. But will the Marxists accept it ?

Already a working group has been set up, consisting of the representatives of the state government and industrial organisations to carry out the various development schemes. If the UF government is sincere in its desire to improve the living conditions of the seven million people of Greater Calcutta, it must eschew ideology in developing Calcutta and carry out the schemes with the utmost speed and vigour. It can certainly look up to the business community for its active co-operation. In the last few months, industrialists have shown a greater awareness of their role in the betterment of Calcutta. Their responsibility was highlighted by Mr Douglas Ensminger, representative in this country of the Ford Foundation, in the following words in an address at a Calcutta conference recently : "You now have investments which run into thousands of crores in your business. The manufacturing sector of Calcutta makes an annual profit of Rs 380 crores. Unless and until you are prepared to invest and invest until it hurts, in the restoration of Calcutta, you must accept as a fact that you are no longer interested in the future of your business and that you do not feel it in your hearts to accept the forgotten and downtrodden people of Calcutta as children of God. Is it not incredible, given an annual added additional value of Rs 300 crores within the Calcutta Metropolitan District, that the current annual expenditure on Calcutta's development is only Rs 3.5 crores ? This is one per cent of the annual value added by the manufacturing section of Calcutta." It is now up to the UF government to enlist the wholehearted co-operation of businessmen in the vital work of improving Calcutta.

Democracy has been found to be a difficult form of government even in countries which have a well-developed two-party system and where the leaders conduct themselves with a high sense of responsibility. How much more difficult should it be in West Bengal where the ministry is composed of twelve parties many of whom, including the most powerful of them, have only a feeble faith in democracy. They should remember that they have been placed in power not to struggle but to serve, not to conspire but to co-operate for the benefit of the people.

Taxation Dose Too Heavy

SAGITTARIUS

A FORMIDABLE effort has been made by the Deputy Prime Minister and Minister of Finance, Mr Morarji Desai, to raise additional resources for meeting the increased commitments of the central government and also transfer larger resources to the states. It has nevertheless been necessary to resort to deficit financing of the order of Rs 250 crores roughly of the dimensions of the revised estimates for the current year. It had been anticipated that there would be an overall deficit of Rs 290 crores in the budget estimates for 1968-69, but it has now been indicated that this deficit will be lower at Rs 260 crores in the revised estimates. This decline has taken place in spite of the fact that there was an increase in revenue expenditure to Rs 3,035.98 crores from Rs 2,896.38 crores and the revenue is expected to go up by only Rs 12.37 crores from Rs 3,027.30 crores to Rs 3,039.67 crores. It is, however, noteworthy that the current year's revenue surplus will now be only Rs 3.63 crores against the earlier expectations of Rs 130.92 crores. The improvement in the overall deficit has, therefore, been due to larger receipts in the capital budget as a result of higher net borrowings, the better success of the small savings campaign and other factors. There was, however, a decline in the total of the capital budget to Rs 2,477 crores from Rs 2,517 crores mainly on account ot the adjustments in the purchase and sale of foodgrains which alone have resulted in a change in the budget estimate by Rs ·165 crores. The relief to the capital budget is perhaps due to the greater reliance on the banking system for financing buffer stock operations. It has not been explained, however, what is the extent of support derived from the banking system for this purpose.

But it is gratifying all the same to note that Plan outlay has been maintained at satisfactory levels and in the next financial year there will be an increase in the capital budget total to Rs 2,628 crores from Rs 2,477 crores in 1968-69 (revised). This would indicate that there will be an increase in Plan outlay. The sectors that will benefit by the larger outlay are government companies and corporations Rs 90 crores, multi-purpose river schemes, irrigation and electricity schemes Rs 31 crores, public works (including roads) and schemes of miscellaneous improvements Rs 15 crores and transport and communications Rs 8 crores. There will, however, be a drop in loans and advances to states and union territories to Rs 794 crores from Rs 915 crores and in loans to government companies to Rs 253 crores from Rs 450 crores. The budget total has, of course, been inflated by the need to redeem maturing loans for larger amounts.

There may, however, be major changes in these estimates later in the year as the final recommendations of the fifth Finance Commission will have to be implemented and the states will probably receive larger net amounts in the shape of loans and grants. As nearly every state has been asking for additional assistance for implementing Plan schemes and wiping out overall deficits, the overall deficit of Rs 250 crores, which has been reduced from Rs 350 crores as a result of the new taxation proposals, may prove to be higher. There need not, however, be a larger deficit as such because it will be possible to raise more through open market loans and the small savings campaign. The revenues too have been grossly underestimated with the result that even if there was a rescheduling of debt repayments to the extent of Rs 100 crores, deficit financing can be kept within reasonable limits.

The point that is sought to be driven home is this. The total of the revenue budget will constitute a record of over Rs 3,500 crores before allowing for the states' share of taxes, while the capital budget transactions will be over Rs 2,600 crores. The total of the revenue and capital budgets will thus exceed Rs 6,000 crores which underlines the need for the utmost care in spending available resources. Even a ten per cent saving will result in a substantial release of funds for other purposes. It is needless to say that the net capital outlay in the public sector in 1969-70 will be much higher than in the current year as the in-

crease in revenue expenditure is due to a significant extent to the inclusion in non-Plan expenditure on the commitments relating to completed schemes, as has been done in the case of state governments, larger assistance to states and so on.

The question may, however, be asked whether Mr Desai was correct in imposing fresh taxation for nearly Rs 173 crores on his own reckoning, and which may well prove to be easily Rs 200 crores as revenues under some heads have been grossly underestimated. The taxes fall mainly on the urban consumers in the shape of heavier excise duties on cotton textiles, synthetic fibres, cigarettes, sugar, domestic electrical appliances and the like. It may be claimed that an effort has been made to mop up agricultural incomes too by imposing an excise duty on fertilizers and electrically driven pump-sets and levying wealth tax on agricultural properties of income-tax payers. But even assuming that the levies are retained in their present form, not more than Rs 50 crores will be collected through these levies. The wealth tax on agricultural properties may be challenged in law courts while there may be a reduction ultimately in the excise duty on fertilisers. There will inevitably be an increase in the cost of many articles of consumption and it is to be seen whether a rise in the cost of living index can be avoided. This can be ensured only if there is a further drop in prices for agricultural commodities particularly foodgrains. It has to be examined, however, whether the urban consumers will be able to overcome the adverse effects of higher taxation especially as the middle income groups will have to pay also a larger amount towards income-tax with the raising of the slab rates between Rs 10,001 and Rs 20,000. This would result in an increase in the tax burden in some cases by over 11 per cent while those having incomes of over Rs 20,000 will have to pay Rs 275 more on a flat basis.

Favourable Gesture

The only favourable gesture in direct taxes is the increase in the exemption limit of dividend income to Rs 1,000 annually. The corporate sector has not derived any tangible benefit as there are no changes in tax rates and it is not known what exactly will be the precise implications of the revised rates of depreciation allowances. It may be said that the jute and cotton textile industries will derive some help through the higher development rebate which will be now available to them following their inclusion in the priority list. However, there would have been greater advantage if their claim for priority treatment in respect of taxation also had been granted.

The reduction in the export duties on hessian sacking and tea will, of course, be substantial though on account of the delay in arriving at these decisions, the two major export industries have been badly hit and a big effort will have to be made to recover the lost ground in the international markets. In the altered circumstances, there is no case for levying export duties on gunnies. The attitude of the government towards the jute industry should be more helpful. The relief to the cotton textile industry is also belated as the spinning mills in the southern region have been passing through a very difficult period and heavy losses have been reported in the past year. Even now it is stated that the demand for yarn can be stimulated only if the spinning units could pass on at least to a significant extent, the relief through the abolition or reduction of excise duties to the consumers as, without an improvement in the consumption of cotton fabrics, there may not be any recovery in the health of the spinning mills. But what is noteworthy is the attempt of the Finance Minister to offset the losses sustained through these reliefs by imposing higher excise duties on gunnies and superfine and fine textiles.

Reaction in Stock Markets

The reaction in the stock markets to the budget proposals, which will mean a large diversion of resources to the exchequer from the private sector, has not been adverse as there is satisfaction over the raising of the exemption limit of dividend incomes, the granting of the claim for development rebate to the cotton textile and jute industries and the reduction in export duties affecting the jute and tea industries. As there may be revival in economic activity to step up their output, the general sentiment in Dalal Street and Lyons Range has been cautiously optimistic. The wisdom of Mr Desai's proposals will, however, be borne out only by the developments later in the year. If for any reason there was a setback in agricultural production in 1969-70, all the calculations may go wrong. It is only to be hoped that the breakthrough on the agricultural front will be sustained and with a better use of physical resources, the shape of things in the first year of the fourth Plan will be such as to infuse confidence in the outlook for the period to 1973-74. The safest and the wisest course would have been to present a Supplementary Budget later in the year after the final recommendations of the Tyagi Commission had been made available and it had also been known that for the third season in succession, there would be bumper food as well as cash crops. The year 1969-70 should, therefore, be said to be crucial in many respects.

Exports After the Budget

A Special Correspondent

MR MORARJI DESAI announced in his budget speech that he was reducing the export duties on jute manufactures, tea and mica in order to "propitiate the gods of international competition". But the Finance Minister's "offering" has been inadequate and half-hearted, considering the recent trends in exports and the prospects ahead.

Exports of jute goods declined from $ 333 million in 1966-67 to $ 312 million in 1967-68; in the first six months of 1968-69, the earnings at $ 141 million were lower by $ 22 million compared to the same period of the preceding year. Competition from Pakistan and synthetics has been increasing not only for traditional hessian but also for carpet backing and specialities of different types. The Finance Ministry cannot deny that there has been a continuous decline in the unit prices of jute goods and that the mills have been incurring heavy losses in recent years. Yet, the government has merely reduced the export duty on sacking and hessian while the situation demanded its total abolition. That would have removed a source of uncertainty and improved the jute industry's competitive power. The grant of priority status to the jute industry is welcome, though it will provide no immediate relief.

For the tea industry also, the right step would have been the abolition and not mere reduction of the export duty. The profitability of the tea industry has suffered seriously because of the continuous increase in the cost of production caused by higher taxes and wages. Many expert committees have repeatedly recommended the removal of the export duty, but the Finance Ministry remains unconvinced. It is worth noting that our tea is now facing tough competition not so much from Ceylon but East Africa where taxation is light, wages are low and productivity is high. Our tea industry is burdened not merely by central taxes but also by state levies. But since the state governments are unlikely to provide relief, the centre should have strengthened the industry's competitive capacity by removing the export duty and by refunding the excise duty. In the case of other items still subject to export duties, it is hoped that the Finance Ministry will not hesitate to act promptly when circumstances warrant it.

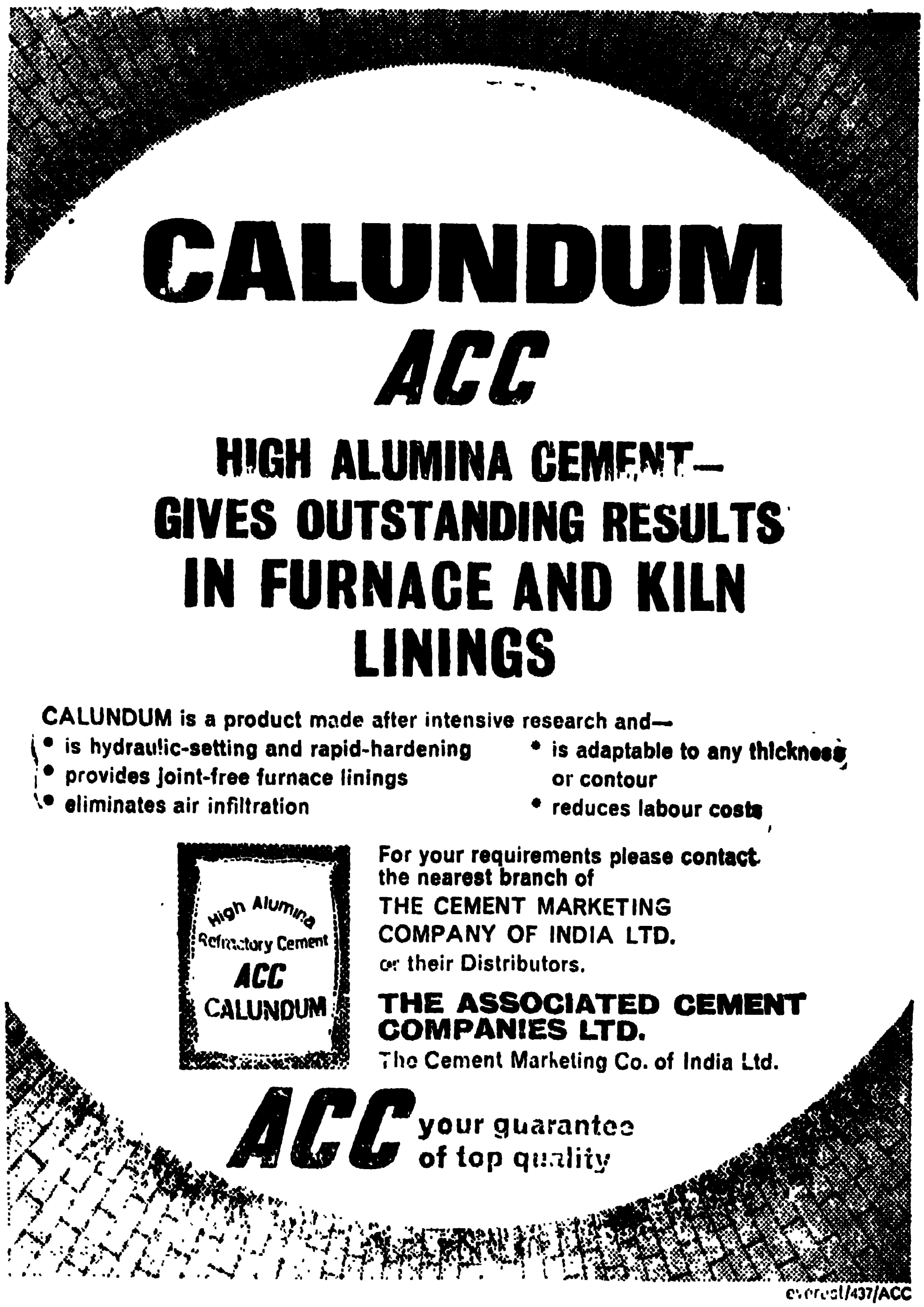
Effect of New Taxes

The budget does not seem to have improved the export prospects of non-traditional industries. A sharp spurt in the home demand for engineering goods would have helped to speed up the industry's recovery from the recession. But the effect of the new taxes will be to curtail and not to increase consumption. The central Plan outlay in 1969-70 is estimated at Rs 1,223 crores against Rs 1,130 crores in the previous year, which is likely to create a greater demand for various types of engineering goods. The Engineering Association of India has regretted that the Finance Minister has not accepted its proposal to create a separate fund of Rs 100 crores for the purchase of the products of capital goods industries such as industrial plant, machinery and machine tools. But the right way to stimulate demand is by creating a buoyant economy and not by spoon-feeding selected industries out of a special fund.

Though the central budget has not provided a powerful stimulus to export (apart from meagre relief in some export duties), the outlook for export, on the whole, continues to be encouraging. It is worth remembering that our exporters, especially of non-traditional goods, are already getting a variety of incentives. These include cash assistance, import entitlement, refund of excise duty and import duty, supply of raw materials at international prices, concessional railway freight, finance at lower rates of interest, blanket release of foreign exchange, and assistance from the Market Development Fund for market surveys and export promotion tours. It is mainly because of these incentives that exports of engineering goods have increased spectacularly. Between 1966-67 and 1967-68 exports of engineering goods rose to $ 44 million by 42 per cent. In the first six months of 1968-69, however, these exports were 126 per cent higher than in the same period of 1967-68. If engineering industry takes full advantage of the incentives and resorts to effective salesmanship, its exports can reach new heights in coming months.

Below Expectations

As regards the jute industry, though the relief has been much below expectations, it should be able to improve its exports by expediting modernisation and by increasing the production and productivity of raw jute. It is well known that the problem of providing the jute industry with timely and adequate supplies of raw material at economic prices has never received any systematic attention. This will be clear from the observations made by Mr Dinesh Kumar Singh, Chairman, at the fourth Indian Jute Development Council meeting held at Calcutta on March 1, 1969. He said, "The current position reminds me of 1965-66 season when we first met. Though it has been possible to make some progress since then, and, in fact, to turn the corner in 1967-68 with a record output of 63.19 lakh bales of jute and the highest productivity of 2.89 bales an acre, no sooner we are confronted with a situation when our current production is estimated around 36 lakh bales, the lowest since 1955-56. This year the combined yield of jute and mesta has hardly any chance of going above 49 lakh bales, as against 74.4 lakh bales in the last season. This of course, is neither uncommon nor surprising for a crop like jute. A look-back will show that we have allowed ourselves with such recurrences for the umpteenth time and spoiled our case in the international market, probably for deriving merely short-term gains". Mr Singh blamed everybody for the jute muddle—the Government of India, the state governments, the State Trading Corporation, co-operative societies and, of course, the jute industry. But what is now wanted is not a post-mortem but energetic and co-ordinated efforts at increasing the production of raw jute. Mr Singh suggested immediate announcement of the minimum price for the 1969-70 season. Now that the central budget has somewhat brightened the outlook for jute goods exports, the government and the industry should intensify their efforts to achieve self-sufficiency in raw jute. As regards the tea industry, attempts should continue to be made to improve productivity and to bring about some of kind of regulation of output in co-operation with the other producing countries. Meanwhile, the Tea Board should display some energy and initiative in strengthening our hold on traditional markets and in finding new markets, for which considerable scope exists in East Europe as well as in the countries of Africa and West Asia.



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opment of rail transport in their states in the interest of fostering economic growth there.

Replying to the Lok Sabha debate the Minister for Railways, Dr Ram Subhag Singh, promised to give priority to defence needs in the railway's expansion programme. He also assured the House that accent in the fourth Plan would be on making qualitative improvements in the railway system. He rejected the demand for the scrapping of the Railway Board and pointed out that there was no alternative to the present administrative set-up for managing the enormous railway network in the country. He, however, assured the House that all policy decisions were taken by the Minister himself. Dr Singh also spoke of the need to reduce staff in the Railways. But this, he felt, ought to be done by improving productivity and modernisation and not by retrenchment.

Intervening in the Lok Sabha debate earlier, the Minister of State for Railways, Mr Perimal Ghosh, announced that the plan for a circular railway for Calcutta, which had been in cold storage for several years, had been finally approved by the Planning Commission. Work on this project, estimated to cost Rs 29 crores, he said, would begin this year. Mr Ghosh revealed that with a view to tackling the transport problem of metropolitan cities, techno-economic surveys would be made this year. The Deputy Minister of Railways, Mr R. L. Chaturvedi pointed out that there was no danger of the wagon industry suffering for want of orders.

Charges Refuted

The demand in the Rajya Sabha for the constitution of a high-powered commission or a parliamentary body to inquire into the charges against the Birla group of industries, as contained in the three memoranda submitted by Mr Chandrashekhar (Cong.), was rejected by the government after a heated debate. Both the Deputy Prime Minister, Mr Morarji Desai, and the Minister for Industrial Development, Internal Trade and Company Affairs, Mr Fakhruddin Ali Ahmed, assured the House that all the allegations contained in the memoranda had been looked into by the government and suitable action under the law had been initiated wherever necessary. A special commissioner had been appointed to coordinate the various investigations and inquiries. Both Mr Desai and Mr Ahmed, however, pointed out that several allegations had been found to be without substance. A commission of inquiry, they pointed out, would only further delay the process and could not do anything more than what had already been done.

Mr Desai further pointed out that no favour had been shown to Birla concerns by the state financial institutions or the Life Insurance Corporation. There had also not been any organised evasion of excise or customs duties by Birlas. Nor was there any truth in the allegation that a large concealed income has been compounded for a small amount. Mr Ahmed refuted the charge that the government was shielding Birlas. Referring to the charges relating to the alleged monopolistic policy of Birlas, Mr Ahmed said that a bill to curb monopolies would come up before the House for consideration shortly. The licensing system was under review to see how the loopholes in the existing system should be plugged.

The controversy over the constitutionality of the West Bengal Governor, Mr Dharma Vira, skipping over the address prepared for him by the United Front Government for delivery to the newly constituted legislature was hotly debated in both the Houses. The opposition's motion in the Lok Sabha disapproving the action of Mr Dharma Vira, however, was thrown out by a voice vote. Mr Dharma Vira's action was criticised scathingly by many an opposition member who felt that in not reading the text of the address in full given to him by the lawfully constituted ministry, the Governor had acted unconstitutionally. Mr S. N. Dwivedy (PSP), for instance, pointed out that the Constitution did not give any discretion to the Governor in the matter. Prof. Hiren Mukherjee (CPI) felt that what the Governor had done was absolutely unbecoming of him. Mr P. Ramamurthy (CPM) observed that it was well known that what was contained in the address was not the Governor's opinion. If the address contained anything against the government, it only meant that that was the view of the cabinet.

Governor's Action Defended

Mr Dharma Vira's action, however, was supported not only by the treasury benches but also by several opposition members. The spokesman of the Swatantra Party, Mr N. Dandekar, maintained that the address prepared by the United Front Ministry went beyond the normal scope. The portions which the Governor refused to read, contained criticism of what had happened before the mid-term poll. The veteran independent member, Acharya J. B. Kripalani stressed that the Governor could not be expected to condemn himself. Mr Prakash Vir Shastri, (Ind.) was criticial of the Prime Minister and the Home Minister for their handling of the issue and demanded that the President must fully protect those who were appointed as Governors. Basing his arguments on the judgment of the Calcutta High Court, which had upheld the decision of the dismissal of the United Front Ministry in 1967, the former Law Minister Mr A.K. Sen asserted that the idea behind the new United Front Ministry asking the Governor to read the omitted paragraphs was to ridicule the High Court's judgment. Mr Sen pointed out that it would have been impertinent on the part of the Governor to flout the judgment of the court.

Explaining the relative provisions in the Constitution, the Law Minister, Mr P. Govinda Menon, put forth a stout defence of the Governor. It was open to the Governor, he asserted, to make suggestions for inclusion in his address and these should receive respectful consideration from his council of ministers. Mr Menon emphasised that the Governor was not merely a mouthpiece of the council of ministers: he had also to defend and preserve the Constitution. The Home Minister, Mr Y. B. Chavan, pleaded for forgetting the unpleasant events and called upon the United Front to behave like a victor. The issue whether the United Front Ministry had been dismissed correctly in 1967, he pointed out, has been decided by the High Court. Whether the High Court's verdict was right would be decided by the Supreme Court. But by trying to put words in the mouth of the Governor, the state ministry, Mr Chavan felt, had probably thought that it could interpret the Constitution as it liked. The two omitted paragraphs, Mr Chavan opined, tried to interpret history which the Governor was not supposed to do.

WINDOW ON THE WORLD

Secrets of the West German "Miracle"

JOSSLEYN HENNESSY

I

GERMANY'S UNORTHODOX INCOMES POLICY

LONDON :

AN INCOMES policy seeks to promote growth and full employment without inflation and a more "socially just" distribution of wealth.

It is, or should be, thought-provoking that the British and West Germans each consider the other to have no incomes policy.

Both start from the premiss that "excessive" unemployment and price rises are intolerable. In the West German view, however, Aubrey Jones, the head of the Prices and Incomes Board, is an overworked and harassed doctor prescribing quack medicines to catch up with whichever of these two fevers predominates at the moment. In subduing one, he stirs up the other. Moreover his very existence aggravates wage discontent, injects politics into what should be an economic debate and drives the government into ever more awkward corners. If he vetoes a wage rise, the disappointed return to the attack. If he allows a rise, he demonstrates to other workers that if they get their unions to shove and their MPs to push, they too can raise their pay. In either event, the best that he can achieve is to build up backlogs of demands which sooner or later burst the dam. The UK type incomes policy encourages the government, unions, and employers to assume as yet unrealised productivity gains in setting growth targets and new pay claims. That was what hit the UK's 1962-64 and 1964-66 plans.

The West Germans seek by wholly different means to minimise the possibilities of outbreaks of pay-price epidemics, and to dampen their effects on inflation or unemployment. In their view they do not treat symptoms but go back first to causes.

Pay-Price Epidemics

Pay-price epidemics arise from excess of investment and/or consumption over savings. Therefore, in addition to fiscal and monetary policies, the West Germans seek to promote both the growth and the widening of the ownership of property, because (they argue) if enough people have incentives to save and prospects of keeping the reward of their saving, the risk that wage increases will create inflation is decreased, while the chances are strengthened that (1) sufficient savings will emerge for investment and (2) labour's share of national income will not fall in absolute terms as the returns of capital rise from rationalisation or automation.

The West Germans believe in having as many rich people in the population as possible : the richer the better. Why ? Because all economists agree that the higher the income the grearter the saving. As far back as 1963, 11,714 West Germans had accumulated capital of one million DM or more, and since the 1948 currency reform wiped out 93.5 per cent of current values, these millionaires built up from scratch. The substantial slashing in 1955 of progression in income tax multiplied the chances of getting rich quickly. For a single man with £20,000 a year, the average rate of tax is 42 per cent (Cf. 62 per cent in the UK); the marginal rate is 52 per cent. The maximum marginal rate of 53 per cent begins at £20,032 compared with 91.25 per cent at £18,900 in the U.K.

Is wealth therefore becoming ever more concentrated in the hands of a few ? On the contrary, the tax system encourages all income groups to save. There are high exemptions not only from all scales of income-tax, but from indirect taxes and from the accumulation of wealth, life insurance, annuity, and savings contracts, including the buying of shares. To attract low income savers into the share market, tax incentives encourage the issue of bonus shares to reduce high denominations and the issue of low par shares. Denationalisation has popularised shareholding among small savers. The sale of shares in Preussag (mining and smelting), Volkswagen, and Veba (electricity and mining) to a total issue value of £8,500,000 created nearly 4,000,000 new shareholders. No individual could buy more than five Preussag shares in 1959 and his income had to be below £600 p.a., and for Veba in 1965 below £1,500 p.a. (the rise in incomes in the interval explains the higher ceiling).

Other measures include a premium paid on any sum which an individual pledges to invest for five years. The ceiling fixed for the annual amount qualifying for premium aims at lower and middle incomes. Older people and parents of large families get extra premia.

II

THE STOCK EXCHANGE AND SAVING

The West German savers traditionally favour savings banks, insurance funds, etc. Because such prudential savings decrease the supply of risk funds and slow the growth rate, the one British institution that the West Germans envy is the stock exchange, capable of mobilising savings, small and big, and channelling them into the most productive uses ascertained by means of issue prices and conditions adjusted to the individual enterprise's prospects and risks. They argue that the capital gains tax is nonsense because, by discouraging savers from switching freely from one investment to another more profitable one, it decreases the efficiency of resource allocation. They add that it increases risks to the saver by encouraging him (1) to attempt long-term forecasts rather than concentrate on more easily assessed shorter term income prospects, and (2) to live off capital gains rather than income. They believe that equity investment is more educational to the saver, is of greater benefit to the capital market and the economy as a whole, and more anti-inflationary and price-steadying than the proposals now discussed in the UK to tax-exempt savings in government securities or national certificates. The West German tax-saving exemptions therefore cover savings in virtually any medium from pension funds to equities because this gives a wide natural choice according to


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individual assessment of needs and avoids market distortions.

The West Germans regard the spread of home ownership, in which they have been spectacularly successful, as another important measure against inflation. Whereas the UK sought to meet the postwar shortage by subsidising building to be let at non-economic rents, West Germany (with some temporary rent controls which have been phased out) offered special aid to those with low incomes, so that market rates could be charged for rents or sales, and builders therefore had realistic incentives to meet demand. By 1960, 6,000,000 dwellings had been built since 1949 (compared with 3,790,000 in the UK since 1946) and completions were running at 600,000 a year (compared with 300,000 in the UK). The West German incentives for housing helped to ensure that a high level of housing demand could be satisfied simultaneously with high levels of productive investment. The British subsidy system did the opposite. West Germany, moreover, effects economies in resources running to thousands of millions by allowing owners to improve existing houses without raising tax assessments against them, whereas the threat of higher assessments in UK causes vast areas to sink into slums entailing vast unnecessary expenditure on clearance and re-housing.

The West Germans do not see taxation as a weapon to punish people who make more money than is good for them but as an unavoidable evil needed to raise revenue. They are chary of increasing taxes to check consumption against inflation, because this risks creating a "cost-plus" society in two ways : (1) as employers are taxed they raise their selling prices, while (2) higher indirect taxes raise buying prices; both cause workers to ask for higher wages. A vicious circle of increasing costs follows. The West Germans regard British "Stop" policies and drastic tax changes as ad hoc short term measures, which falsify the price mechanism, whereas the free up and down movement of prices needed to guide supply and demand requires the use of the whole battery of fiscal, monetary, and tariff measures, coordinated in long-term policies to enforce competition. To raise producer prices because costs have risen may, in the long run, be unavoidable, but as an immediate reaction the West Germans regard it as evidence of lazy management. In proof, they point out that international trade is the nearest approximation to a freely competitive market and that export and import prices every where have risen less than domestic prices. Certainly this is due in part to falling relative prices of primary products, but these have little effect on internationally traded manufactures and capital goods.

III

THE DM's STABILITY

The DM's stability has been a major factor in encouraging personal savings which in 1954/56 averaged 13.8 per cent and in 1960-62, 13 per cent of disposable income, compared with three per cent and 6.5 per cent in the UK in the same years.

Price stability has also been a major factor in West Germany's export surplus. In the first few years when unemployment was high, it was arguable that the surplus arose because lagging domestic demand gave industry no alternative but to sell abroad. As, however, it has persisted with unemployment at one per cent or below, it is now clear that the export surplus arises from higher competitive ability and better internal control of inflation than in other countries.

Does all this mean that the West German "miracle" has been achieved at the expense of the masses ? Look at the table :

HOW THE WEST GERMAN'S PURCHASING POWER HAS GROWN : 1958 1966

	Nominal hourly wage % increase	Cost of living price index % increase	Hourly wage in terms of purchasing power % increase
West Germany	109	22	71
France	53	36	13
Great Britain	68	26	33
Sweden	95	34	46
USA	32	12	18

SOURCE : German International

Since West Germany attained full employment in 1958, unemployment, despite steadily intensifying rationalisation and automation, has varied between 0.4 and 1 3 percent (except in 1967, when it averaged 2 1 per cent an impressively low figure for a recession in which GNP actually fell), which suggests that the 2½ per cent cited as the desirable figure for UK unemployment is not a norm set for all time but reflects the current structures of supply and demand, tariffs, subsidies, and other curable market imperfections.

What of the success of British and West German incomes policies in reducing personal consumption as a percentage of GNP ? British personal consumption hovers around 75 per cent. German personal consumption around 57 per cent of a GNP that rises on average at least double the British annual rate.

Some observers see the Coalition government's new Concerted Action programme as a move towards a British type incomes policy, but there is no consensus for this in West Germany. The unions fear that a Prices and Incomes Board would undermine their bargaining powers, the employers that, if it could enforce wages and prices, it would destroy the market mechanism and end in the totalitarian type of economy from which the communist countries are trying to ease themselves out. The Concerted Action programme seeks to present unions and employers with the most up-to-date and authoritative data available on short and medium-term trends in order to help both sides to formulate realistic decisions. It is an additional weapon, not a substitute for fiscal and monetary policies and measures, to promote saving and wider property ownership.

Let an official of the Bundesbank have the last word : "Your questions suggest you think we've solved the problems of unjustifiably rising prices and wages. We have not. But our policies make them more manageable than yours. Remember, above all, inflation, not wage bargaining, is the enemy of social justice. The injustice of inflation is not, as is constantly repeat-

ed. confined to people on fixed incomes. It hits everyone. How can workers feel justly treated when, for reasons they don't understand, prices creep up all the time ? To refuse higher pay then seems illogical and unjust. So timid politicians bully timid governments into creating the further credit required. Incomes, divorced from real results, rise still higher and buy still less. Social injustice is maximised. We're lucky because our trade unions' subscriptions are one hour's pay per week per member (the higher the pay, the higher the subscription), so that the unions can afford to employ top-level talent to provide widely attended economic courses for their members. A public opinion poll shows that 65 per cent of workers think higher wages lead to higher prices rather than to lower profits; 75 per cent that wage increases are useless because offset by higher prices; 47 per cent that strikes harm more than they help the worker. The unions back our savings policies because they think they help to ensure real--not inflationary—wage increases. It was the unions which urged the Preussag, Volkswagen, and Veba denationalisations to spread property ownership. The workers' attitudes are due not so much to official exhortations as to the unions' convictions and educational efforts".

Further Reading: Space has compelled sweeping and possibly unconvincing generalisations. Government and municipal officials, tax experts, accountants, housing experts, trade unionists, and others interested in the technical details of Germany's tax exemption measures will find them expounded in depth by F. G. Reuss in "Fiscal Policy for Growth Without Inflation: The German Experiment" (John Hopkins Press).

Europe After Nixon's Visit

E. B. BROOK

VIENNA :

DESPITE PRESIDENT Nixon's recent visits to six leaders of the European scene the principal intimate development for Europe remains the attitude of France, that is, of de Gaulle, to the Common Market and the future of that organisation.

For the last 12 years or more, Europe has, as it were, stood by fascinated at seeing itself organised successfully and profitably into three economic blocs--the eastern communist Comecon relatively out on its own ; the loosely-organized, fairly easy-going EFTA of the "fringe" countries of Scandinavia, Britain, Portugal and Comecon's neighbour, Austria a fairly motley collection, and the increasingly closely integrated, aggressive, and always exclusive Common Market. To many in west Europe the continent is, for all practical purposes, the Common Market with EFTA members and others persistently, but unsuccessfully, trying to join it.

The Common Market image has, as a result, become a little overdrawn. It is seen, very largely correctly, as closely knit, reserved, conservatively progressive, essentially capitalistic, the show boy and the success story of post-war Europe enabling that formerly shattered continent to turn a coldly independent shoulder to the Americans a coolness that was heartily reciprocated by the former American President Johnson.

Now two rather contradictory things have happened simultaneously. The new American President has lost no time in coming over, with all the publicity possible, to make friends, to listen to and talk with the Europeans from the Pope to the Berlin workman. At that very time President de Gaulle has been revealed by his British friends as being quite willing to consider putting the Common Market aside altogether and seriously thinking of a more loosely united western Europe guided, not necessarily "directed", by a big "four" comprising France, Britain, West Germany and Italy.

The row over this disclosure and the fact that it was disclosed is now an old story. But it is important to consider this matter as revealing what the contemporary non-communist Europe really is and in dissolving a few long-lingering dreams.

The first dream of "a kind of united states of Europe with a sense of enlarged patriotism and common citizenship" was the concept of, of all people, that very English Englishman Winston Churchill than whom no one knew better that there never has been and is not any sense of common citizenship in Europe and that "enlarged patriotism" there can only be a temporary concept for pragmatic convenience. Churchill could, at that time, afford to dream aloud because, in 1948, he was in opposition.

When the Common Market was discussed in 1955 and 1956, Conservative Britain sent an observer but eventually withdrew him and paid little attention when the Common Market was set up by the Treaty of Rome in 1957.

De Gaulle, a colder realist than Churchill, and since at least 1940, a player of the more cynical form of politics, never cared for the Treaty of Rome—he came to power a year after it was signed- and has always spoken of the future as lying with a Europe of "the parties". As a European (which the British, psychologically, are not) de Gaulle knew what he was talking about. The Europeans unite, ally and group themselves together only when circumstances make that tactic compulsory to survival (as with the Anglo-French alliances vis-a-vis Germany) or profitable as with the Common Market vis-a vis the USA. Otherwise, the "parties" remain separate, distrustful, jockeying always for position friendly but competitive, often forthcoming but always mean. It is a profound mistake to think that contemporary Europe's cultivated prosperity has changed one whit of its essentially greedy peasant basic character.

De Gaulle does not and has never shared any supranational ideals the pipe-dream of "one world" does not exist in Europe, and that of "one Europe from the Atlantic to the Urals" (relegated to cold storage temporarily after the Soviet occupation of Czechoslovakia) is a concept only of unity to keep others--that is, the Americans-- at bay. To the French, also, the Russians have always been acceptable because they are a long way away and constitute a counterweight.

It is necessary also to recall that de Gaulle and Gaullist France have not only consistently used the Common Market for their own advantage—to such an extent that the Market has recently protested -- but that theirs is an a-political State. Gaullism came into being in 1940 as a conspiracy to overthrow an admittedly weak and unsuccessful government of politicians but of politi-

cians, nevertheless, who had been elected by the French people to form and run their government. When de Gaulle returned to power in 1958 with open expressions of contempt for politicians, it was as a result of a military conspiracy. His continuation in power after the serious riots of last summer was the result of a bargain with the French generals who won from him the release from jail of other generals who had been imprisoned for rebelling against de Gaulle's policy in Algeria.

Since Gaullist France has guided the Market its essentially opportunistic methods have inevitably coloured the Market's own policies and, more especially, have left France's partners (all also realistic Europeans) in no doubt as to where they stand with France. Their position is clear also to others: they will be jettisoned as a body when, as a body, they no longer serve French interests. Neither individually nor as a body of five are they sufficiently strong nor sufficiently united in interests to withstand Paris. Were Germany strong enough to do so, the position might have been otherwise; Germany is prosperous but not strong. Germany needs the USA and it needs France as an offset to the USA to make its defence dependence on America not too overwhelming. Adenauer and de Gaulle kissed one another in Paris in 1964 not out of love but because each wanted to have to do no more than shake hands with Washington.

France, also, has been able to show its strength in the last few months by refusing to devalue the franc and by maintaining its trade performance reasonably intact despite the strain of that operation. It is clear to Europe that the franc will probably be able to withstand a certain amount of pressure which could be generated by such untoward incidents as the quarrel with Britain. It is equally clear to Europe that the Five will continue their habit of letting France have its own way when it comes to the pinch whatever plots and scandals the British or others may reveal and however often President Nixon comes bearing bouquets from Washington.

US to Follow Monetary Restraint

GERARD A. DONOHUE

WASHINGTON :

IN ITS determination to check inflation, the United States government could take prompt and decisive actions to bring it to a halt almost overnight. But the disruptive effects of instant deflation would almost undoubtedly cause more problems than a relatively mild inflationary trend.

What the US Government hopes to do through fiscal and monetary policies is gradually, over a period of several months or more, to bring the rate of growth of prices down well below the four per cent gain of last year.

The fiscal policies to restore stability were set in motion last summer when the Congress voted an income tax surcharge and a cut in government spending. But it wasn't until quite late last year that the monetary authority the Federal Reserve Board of Governors—began to take action to cut the rate of growth of money supply and restrict credit.

The Federal Reserve Board had assumed, erroneously as it now admits, that the effects of higher taxes and lessened Government spending would be felt sooner than they were and so followed an easier money policy than it should have.

But the demand pressures and, perhaps, more important, the belief of consumers and businesses that prices would continue to rise kept retail sales booming and business investment high.

The impact of reduced government purchases of goods and services and the tax increase now are being felt and will continue to be felt for the next several months as tax payers pay their 1968 tax bills. The Federal Reserve Board, as the Chairman of the Board of Governors, Mr William M. Martin, Jr., has stated, intends to reinforce the fiscal policies by restraining the rate of growth of the money supply and keeping credit scarce.

Mr Martin notes that prices are continuing to climb, but he believes a principal reason for this rise is that people believe prices will continue to rise and hence spend on the theory that money will buy less later. He believes it necessary for the government to demonstrate its determination to check inflation by keeping money and credit tight until prices level off and consumers and businesses get over their inflationary psychology.

This cannot be done without cost to the general public. Interest rates are high now, higher than they have ever been, and they will stay high for the rest of the year. Many who want credit to buy a house or an automobile or for business investment will not be able to find it.

But cooling off the economy gradually is far less painful than increasing taxes by a large amount and cutting government spending heavily. Unemployment would then increase; the public would be denied the needed government services, and imports would decline, with adverse effects overseas.

In testimony before the Congress over the past couple of weeks, government officials have stated their determination to check inflation and thus preserve the value and strengthen of the dollar and they are confident that they can do so in a gradual and non-disruptive manner.

The moving finger writes

THE DHARMA VIRA episode clearly shows that, while both the central government here and the UF ministry in Calcutta are resolved to practise brinkmanship in their dealings with each other, neither of them is over-keen on going over the brink. In other words, there is to be in our domestic politics a cold war on the classic lines of the east-west confrontation in international affairs. I am wondering which of our political parties, if any, or which of the state governments, if any, are going to practise the virtues of non-alignment in this situation.

* *

Kingsley Martin, who passed away suddenly in Cairo, where he had gone to interview President Nasser, was one of those redoubtable knight errants of British journalism who have helped along the historic process of the Press in their country blooming well and truly the Fourth Estate of the Realm. As Editor of 'New Statesman' he was one of the most committed, even if occasionally erratic, spokesman of the great Liberal tradition in British intellectual, political or public life. In his love of peoples and causes, it may perhaps be said of him that he loved well, even if not always wisely. This country has reason to remember him with affection for his passionate attachment to its freedom struggle and if, in the years after freedom, Kingsley Martin chose to take a view of the Indo-Pakistan dispute over Kashmir which did not seem to do justice to the Indian case, this too was part of all that went to make him impishly unpredictable in his judgment, but for all that loveable for the intense warmth of his involvement in the happiness of peoples as individuals and the destiny of the human race.

Kingsley Martin, like J. B. S. Haldane, willed his body to medical research. Neither of them had any use for the rituals of a religious funeral. Unbelievers while living, in death they did not recant. In striking contrast was the case of Jawaharlal Nehru. Although he did not, in so many words, declare himself to be an atheist, he loved to describe himself as a pagan. His cremation, nevertheless, was carried out with the full elaboration of religious rites and his ashes were immersed ceremonially at the confluence of the "sacred" rivers at Triveni. Nor did the All-India Radio neglect its duty. It kept up for days the chanting of hymns and bhajans and scriptural texts from all the religions. What happened to Annadurai, who was an open and colourful atheist throughout the advertised part of his public life, was even more intriguing. As he lay dying, prayers for his recovery were directed to be offered to the deities at the temples of Tamil Nadu. After his death, a samadhi has been built and "Anna" may yet become a latter-day saint. "O death, where is thy sting? O grave, where is thy victory?" Need we pause for an answer?

* *

The Chief Ministers of Kerala, Mysore and Tamil Nadu have naturally been distressed by the losses and hardships inflicted on south Indians in Bombay during the recent Shiv Sena riots. The Chief Minister of Tamil Nadu is quite right in saying that the people of any state in the Republic should be guaranteed the right to reside in any other state and pursue their legitimate avocations. I suppose Mr Karunanidhi will agree that the people of a state are also entitled to be protected from the violence of their fellow-men in their own state. How then is it that DMK ministers have been so equivocal in condemning the conduct of certain persons in the lignite township of Neyveli in Tamil Nadu, who chose to take the law into their own hands and subject an eminent Tamil scholar and savant to physical assault and criminal intimidation simply because they chose to interpret certain general remarks of a philosophical character made by him in the course of a religious discourse as lacking in respect to the memory of the late Annadurai?

The victim of this mob fury is one Mr Kripananda Variar, a much respected and very popular religious preacher. His literary and musical discourses in praise of Lord Muruga (who, incidentally, is regarded as a "Tamil god", the counterpart of Kartikeya of the north) attracts vast audiences among the Tamilspeaking people. While delivering a religious discourse at Neyveli, Mr Kripananda Variar, it appears, made the observation that, when time came for a man to die, not all the doctors in the world could save him. This was understood by the "Anna" fanatics of the place to refer to the circumstances of their hero's death and was considered by them to be sufficient provocation to raid the house where the elderly scholar who had incurred their wrath was putting up. This unfortunate man was subjected to physical assault and was bullied and browbeaten into signing an abject and humiliating apology. One of the more outrageous aspects of this entirely objectionable episode was the attitude of the local police, who reportedly regretted their inability to intervene and gratutiously advised Mr Kripananda Variar to seek safety by leaving the town forthwith.

The harrowing details of these disgraceful happenings were narrated on the floor of the Madras legislature. One of the ministers, Mr Madhavan, thought it proper to remark that sarcastic references to "Anna" were bound to provoke angry reactions. The Chief Minister, however, was slightly more sensible and informed the House that the police had registered a case. I hope that Mr Karunanidhi, will spare time from fighting for the rights of the people of Tamil Nadu living in Bombay city and act to punish the hooligans of Neyveli who seem to have assumed the authority to make Tamil Nadu unsafe for those Tamilians who, by their thought, word or deed, may happen to incur their august displeasure.

V.B.

Trade Winds

I.C.I.C.I

MR G. L. MEHTA, Chairman, The Industrial Credit and Investment Corporation of India Ltd has stated in the annual report of the Corporation that 131 applications for financial assistance were received during the year ended December 31, 1968 and the Corporation approved 107 requests for assistance for a total amount of nearly Rs 38·10 crores to 35 companies. Rupee assistance in the form of loans and guarantees and in other forms such as underwriting of issues and direct subscription amounted to Rs 11·64 crores to 15 companies and foreign currency loans to the extent of Rs 26·46 crores to 24 companies. With this performance during the year 1968 the Corporation has already sanctioned during 14 years of its inception an amount of Rs 230·51 crores to as many as 486 companies out of which 208 were new undertakings. In this manner, the ICICI has proved to be of considerable assistance in the establishment of new industrial units. Of the total assistance, an amount Rs 131·88 crores was sanctioned in the form of foreign currency loans spread over 328 companies. The amount actually disbursed in terms of foreign exchange, however, was Rs 88·42 crores. Similarly amount disbursed in terms of rupee loans was Rs 35·03 crores as against Rs 48·85 crores actually sanctioned.

Mr Mehta pointed out that the Corporation's resources as on December 31, 1968, were of the order of Rs 198·39 crores made up of Rs 61·49 crores in rupees, consisting of Rs 7·50 crores as share capital, Rs 4·99 crores as reserves, Rs 32·50 crores as loans from the union government, Rs 10·50 crores as advance from the Industrial Development Bank of India, and Rs 6 crores as debentures issued by the Corporation. The Corporation's resources included $ 182·53 million in foreign currencies which in terms of rupees came to 136·90 crores.

The Corporation recorded a net profit of Rs 1·44 crores after meeting all expenses and providing Rs 1·05 lakhs for depreciation, Rs 7·22 lakhs for bad and doubtful debts and Rs 1·29 crores for taxation. The directors have appropriated Rs 36 lakhs to special reserve and Rs 25 lakhs to general reserve. A sum of Rs 20 lakhs has been transferred to general reserve against doubtful debts. The directors have recommended the payment of a dividend at the rate of 9 per cent subject to tax for the year under review.

ASSAM BUDGET

Assam's budget for 1969-70, presented to the assembly on March 7 by the Finance Minister, Mr K. P. Tripathy, revealed a deficit of Rs 50·02 crores. Of the deficit, Rs 8·30 crores was on revenue account and Rs 26·10 crores on capital account. To this is added an opening deficit balance of Rs 15·58 crores. Revenue receipts for the year have been estimated at Rs 99·46 crores and revenue expenditure at Rs 107·76 crores. The Finance Minister was hopeful that the gap on revenue account would be bridged by the final award of the Finance Commission. Capital receipts for the year were placed at Rs 116·42 crores, against the capital expenditure at Rs 144·72 crores. During 1968-69 revised estimate of capital receipts were placed at Rs 118·16 crores, against estimates of expenditure at Rs 120·20 crores. The Finance Minister indicated that huge sums had to be borrowed for financing schemes such as power generation, flood control, communications and industries. Mr Tripathy pointed out that the financial resources potential of Assam State was low because its economy had been predominantly agricultural.

FRENCH TRADE DELEGATION

A French trade delegation will visit this country soon to follow up the expansion of trade and joint industrial ventures in specific fields. The joint consultations between this country and the visiting French delegation concluded with the joint communique issued expressing possibilities for increased co-operation between the two countries in the economic and cultural areas. The commission studied broadly the fields in which further co-operation was possible. The trade delegation that would come later would follow up the threads. The commission was also to finalise the annual trade arrangements. After the signing of the joint communique, the leader of the French delegation, Mr Jean de Lipkowski, stated that there was broad understanding on the technical co-operation in the fields of education, industry and science.

JAPANESE INDUSTRIAL DELEGATION

A seven-member delegation of top managers of Japanese industry, led by Mr Toshio Doko, arrived at Calcutta on March 6 from Tokyo. The delegation was on a fortnight's tour of this country. Mr Toshio Doko stated that after the tour the delegation would prepare a report for the Japanese economic circles on joint ventures and technical collaborations in this country. He said Japanese industrialists were keen to assist India in developing her economy. The visit has been sponsored by the Japan Productivity Council through the Asian Productivity Organisation. Apart from initiating an exchange of ideas on productivity efficiency between the two countries, the visit will provide a good opportunity for top industrialists from Japan to appreciate the progress of our industrialisation since Independence and the high degree of efficiency attained in several sectors. Such appreciation would provide considerable scope for fostering trade and industrial collaboration.

UK's FOOD ASSISTANCE

Britain will give our country 2·7 million pounds (Rs 4·86 crores) for the purchase of wheat, principally from Argentina. The agreement was formalised in New Delhi recently by an exchange of letter between Sir Morrice James, British High Commissioner, and Dr I. G. Patel, Special Secretary, Ministry of Finance. This sum would pay for about 118,000 tonnes of wheat, of which 112,000 tonnes have already been shipped. The Biritish gift fulfils part of the obligation accepted by Britain, as a signatory to the 1968 Rome Food Aid Convention, to provide 225,000 tonnes of grain, or the cash equivalent each year for three years as aid to developing countries.

INCREASE IN TOURIST TRAFFIC

The total number of foreign tourists visiting this country in 1968 was 189,000, recording an increase of 5·2 per cent over the 1967 figure of 179,000. The largest number of foreign tourists continued to be from the USA, although the total arrival was less by three per cent as compared to last year. This year 41,741 tourists arrived as against 43,000 in 1967, the International Tourist Year. More and more tourists have started coming from South America and Australia. There was an increase of traffic by 29 per cent from South America. An increase by 52 per cent was recorded in the arrivals from Mexico where an office of the Tourist Department will be opened shortly for promotional activities. From Australasia 10,000 tourists arrived, recording an increase of 28 per cent. Tourists from West Europe, including the UK, totalled 63,030 in 1968 as against 56,510 in the previous year, an increase by 13 per cent. From East Asian countries 46,590 tourists arrived against 42,433 last year. This was an increase by nearly 10 per cent. The tourist arrivals from Canada recorded an increase by 18·5 per cent.

COIR EXPORTS

Coir exports during the first ten months of the current financial year earned Rs 12·5 crores of foreign exchange. This was higher by Rs 1·8 crores over the corresponding period of last year According to the provisional

figures, total export of coir and coir products during the period April 1968-January 1969 amounted to 53,114 tonnes valued at Rs 12·5 crores as against 47,325 tonnes worth Rs 10·7 crores of coir and coir products exported during April 1967-January 1968. Substantial increase in export is noted in the case of major items like coir yarn, coir mats and coir mattings.

FERTILIZER SUPPLIES

The Norwegian Minister of Industry, Mr S. Walter Rostoft, who was on a visit to this country, met Mr B. R. Bhagat, Minister of Foreign Trade and Supply, recently. During the discussion the Norwegian Minister is understood to have offered to supply fertilizer to our country against payment in our currency. These funds, could be used in agreement with the government for pre-investment studies, market development, and investment in production facilities on the basis of joint ventures. Mr Bhagat outlined our plans for stepping up fertilizer production within the country and indicated that, because of the rapid rise in demand for fertilizers from the agriculturists, imports might be necessary for some years. The Indian side, he said, would follow up the Norwegian offer and work out specific proposals.

IRON ORE FOR RUMANIA

As a result of recent negotiations between the visiting Rumanian delegation and the Minerals & Metals Trading Corporation, a new contract has been signed for export of over 800,000 tonnes of iron ore from this country to Rumania during the coming year 1969-70, worth about Rs 4·5 crores. It represented an increase of over 100,000 tonnes over last year's contract. A significant new feature is the inclusion of iron ore fines in the contract. The steady increase in our iron ore exports to Rumania can be judged from the fact that the coming year's quantity would be double of what was exported during 1966-67.

CONFERENCE ON MARKETING

A five-day Executive Conference on Marketing Abroad was organised by Indian Institute of Foreign Trade at Faridabad from February 24 to 28. It was designed for export managers and sales managers, who were responsible for selling in overseas markets. The conference aimed at providing them with an opportunity for better understanding of foreign market characteristics and selling methods, which would enable them to solve export marketing problems more efficiently.

AIR FRANCE RECEIVES BOEING

In preparation for a further expansion of its international flight services, Air France took delivery of its fifth Boeing 727 three-engined jetliner recently. The new aircraft, B-727 F-BOJE, made its first landing at Orly International Airport, Paris, after crossing the Atlantic. Air France has another five Boeing 727s on order for delivery over the next several months.

TRACTOR FACTORIES

Mr Fakhruddin Ali Ahmed, Minister for Industrial Development, revealed recently that the government had received ten proposals to establish factories to manufacture tractors since the industry was delicensed in February last year—four for Hyderabad, and one each for Poona, Patiala, Faridabad, Ludhiana, Loni (UP) and Moradabad (UP)

EXPORT PROPOSAL TO YUGOSLAVIA

A Yugoslav business delegation was told recently to buy more non-traditional items from our country. A major part of our exports to Yugoslavia still consisted of traditional items. The appeal was made by Mr G. M. Modi, President of the Federation of Indian Chambers of Commerce and Industry, when a 10-member Yugoslav business delegation met him recently. It was explained on behalf of the Yugoslav delegation that their country would be willing to consider steps to increase the offtake of our manufactured items. But, since the Yugoslav government had placed all imports on an equal footing, our manufactured items would have to compete, both in terms of quality and price, with comparable items from other countries.

The present trade and payments agreement between this country and Yugoslavia is being extended for one year until the end of the current year

during which period there will be talks on a possible new pattern of agreement. During the talks between the visiting Yugoslav economic delegation and the union government which concluded, no agreement could be reached on a new pattern of payment arrangements. The only agreement reached was that the existing pattern under which payment was made in rupees should continue. This meant that so far as Yugoslavia's existing rupee accumulations (and any further accumulations during the year) were concerned there would be no conversion in sterling and payment would be made through our goods.

INDO-ALGERIAN TRADE

India and Algeria have reached agreement on promotion of trade between the two countries. Items of imports and exports have been identified and it has been agreed that the total volume of trade both ways should be of the order of $10 million a year. The groundwork for a formal agreement has been prepared as a result of discussions between the two Governments in recent weeks. A trade delegation from Algeria was expected to sign the agreement. Algeria would supply fertilisers and rock phosphate for production of fertilisers both of which this country required in large quantities. A small quantity of olive oil would also be imported by us. Textiles would constitute the main items of our exports to Algeria. Manufactured goods and items of machinery would also be exported to Algeria. Among such items would be pipes and cranes and other construction and industrial machinery. This country can also supply coffee, tea, tobacco and jute manufactures.

LEIPZIG FAIR

The Leipzig Spring Fair which was held from March 2 to 11, 1969, was keynoted by the theme: "For World- Open Trade and Technical Progress- 20 Years German Democratic Republic". During the Fair some 10,000 exhibitors from 65 countries on a net floor space of about 350,000 sq metres (3,770,000 sq ft) offered products of top standards of scientific and technical development and of a high service value. As largest exhibitor from overseas, our country participated in the Fair on a floor space of more than 1,200 sq. metres.

INDO-AUSTRALIAN CONSULTATIVE MEETING

The Annual Consultative Meeting of the officials of the governments of our country and Australia is being held in New Delhi from 13th to 15th March, 1969. These meetings were held to exchange views on international affairs and to review bilateral relations and mutual cooperation between Australia and India in various fields. The Australian official delegation was led by Sir James Plimsoll, Permanent Secretary, Department of External Affairs, who was formerly Australia's High Commissioner in this country and included Sir Arthur Tange, the Australian High Commissioner in New Delhi.

IMPORT OF TYRES AND TUBES

In view of the scarcity of tyres and tubes for agricultural tractors and power tillers, the government has decided to permit import of a further quantum of 8,500 tyres and tubes each, including 240 for power tillers.

COMPETITION FOR DESIGN OF HOUSES

The National Buildings Organisation in collaboration with the Indian Institute of Architects has invited integrated layout plan and detailed building designs in competition for two group houses in hot and arid regions (*i*) Low income group houses -flat system (four storeyed and above), plinth area of each flat excluding staircase, common circulation space and balconies, 37 sq. m. (400 sq. ft). (*ii*) Middle income group houses – flat system (four storeyed and above), plinth area of each flat, excluding staircase, common circulation space and balconies, 65 sq.m. (700 sq. ft.).

EXPORT ADVERTISING AGENCY

In view of our vigorous export drive, an advertising agency exclusively devoted to export advertising has started functioning in Bombay. Nimas Export Publicity Private Ltd. the new agency, has offices at 121 Mahatma Gandhi Road, Bombay. The agency has correspondents in all principal countries of the world. Its parent company has been placing advertising in many export markets right from its inception about a year ago. It has been formed solely to give complete advertising service,' of international standard, to our exporters. export promotion councils, commodity boards, State Trading Corporation, tourism departments and others interested in export advertising.

PRECISION INSTRUMENTS PLANT

Instrumentation Ltd is responsible for the establishment of a precision instruments plant at Kota, Rajasthan, for the manufacture of magnetic, electromagnetic and electronic instruments and a mechanical instruments plant at Palghat, Kerala, for the manufacture of mechanical, hydraulic and peneumatic instruments with the technical and financial assistance of USSR. The authorised capital of the company is Rs 7 crores.

During the year ended March 31, 1968, the precision instruments plant at Kota has made considerable progress and commenced trial production. Its products are already being marketed. The order booking on the company by the customers, both in the public and the private sectors, amount to approximately Rs 10 crores, to be fulfilled during the course of next few years. This includes nearly 80 per cent of sales on systems basis to be executed as "turn-key" jobs at project sites of various process industries. An application group, consisting of system design, erection and commissioning teams, has been organised to suitably look after the fulfilment of the company's obligations. Although the company has its first objective to meet the internal requirements, nevertheless, attention has been focussed on consideration of avenues of export of its products.

The detailed project report for the Kerala Project was approved in August and action was initiated for the implementation of the project. Because of the drastic reduction in the overall investment on industry coupled with the drop in the estimates of the requirements of instruments, the government reviewed the question of production in the two units of Instrumentation Ltd, at Kota and Palghat. With a view to ensuring the economic viability of the Kota unit (which has since gone into commercial production in September 1968) it was considered necessary to postpone, for the present, the mechanical instruments plant at Palghat and take up at Kota with marginal additional investment, at least certain percentage of the instruments planned for the Palghat unit, so as to enable the company to meet the immediate requirements of Bokaro Steel and others. About the further implementation of the Palghat unit, a final decision is yet to be taken.

NAMES IN THE NEWS

Mr A. N. Banerji, at present Deputy Chairman of the Hindustan Steel Limited, is being appointed Director-General of the Bureau of Public Enterprises.

Mr P. C. Hansotia, Chartered Accountant, Bombay, and **Mr H. T. Parekh**, Deputy Chairman of the Industrial Credit and Investment Corporation of India Ltd, have been elected as Directors on the Central Board of the State Bank of India as from March 6. Theirs were the only two valid nominations received for election in the vacancies caused by the resignations of **Mr J. D. Choksi** and **Mr Prathpsinh Mathuradas** which took effect in December last.

Company Affairs

STATE BANK OF PATIALA

THE STATE bank of Patiala recorded a net profit of Rs 7·21 lakhs, after making the usual provisions, during the year ended December 31, 1968. The directors have proposed to transfer Rs 1·45 lakhs to reserve fund, Rs 3·90 lakhs towards bonus to staff and Rs 1·75 lakhs towards dividend to be paid at the rate of five per cent subject to tax. The allocation to staff welfare fund has been maintained at Rs 10,000. Deposits and other accounts of the bank amounted to Rs 43·04 crores on December 31, 1968 as against Rs 38·13 crores a year before. At the end of the year, bank's advances stood at Rs 22·61 crores as against Rs 11·95 crores a year before.

In pursuance of the scheme sanctioned by the union government, the Amrit Bank Ltd with its branches at Amritsar, Gurdaspur and Khanna were amalgamated with this bank with effect from February 3, 1968. The bank also opened branches at Bhawanigarh, Kurali, Industrial Estate Patiala, Dharampur, Patran and Dharampura Bazar Patiala, during the year 1968. With these new branches, the bank had towards the end of 1968 as many as 83 offices as against 74 at the close of the previous year.

The bank continued to grant liberalised credit facilities to small-scale units and co-operative institutions. As on December 31, 1968, the number of small-scale units which got assistance increased to 351 as against 253 a year before and their total credit limit also increased to Rs 2·72 crores, as against Rs 2·40 crores last year. Similarly, advances to co-operative institutions also increased with limits at Rs 14·19 crores, as against Rs 8·75 crores a year before. The bank also started financing agricultural operations and gave production loans to 101 units with a sanctioned limit of Rs 42·25 lakhs. Instalment credit loans for agricultural machinery, etc., were given to 107 units with sanctioned limit of Rs 19·90 lakhs. Medium term loans were given to five units to the extent of Rs 5·65 lakhs. In this manner, the bank increased its sphere of operations to be of assistance to the agricultural sector.

CHARTERED BANK

Mr William George Pullen, Chairman, Chartered Bank, in a statement to be presented at the annual general meeting to be held on April 2, 1969, pointed out that in spite of currency problems and restrictions, the Chartered Bank Group pursued the policy of expansion abroad and opened branches in different countries, and, at the same time, continued to diversify its activities in the domestic market. He indicated that in view of the fact that authorised capital of £10 million was fully issued, the bank proposed to increase it to £15 million and stockholders would be asked to agree to the special resolution at the annual general meeting. There were, however, no plans at the moment for the utilisation of this additional authorisation.

The bank recorded an increase of £95 million in the current deposits and other accounts and maximum increase was in the overseas branches. Advances increased by £57 million, reflecting the expansion of overseas business. The chairman indicated that after making the usual provisions, the consolidated net profit for the year was £2·48 million, an increase of £350,028 over the previous year. He indicated that overheads both at home and overseas continued to increase, mostly due to expansion of business and also due to increase in staff emoluments and other costs which, however, were absorbed mostly by increased profits earned through large volume of business. A sum of £584,695 was transferred to reserve funds and £490,000 to Reserves for contingencies. The interim dividend of 7½ per cent paid in September, 1968, absorbed £635,250. A final dividend of 7½ per cent was proposed to be made, making 15 per cent for the year. A balance of £989,776 was proposed to be carried forward.

In the context of the operations of Allahabad Bank Ltd, Mr Pullen stated that 11 new branches were opened in 1968 and hoped that an equivalent number would come into operations during the current year. He was certain that in the course of time these branches would become valuable constituent of the establishment, although in the initial period these branches might prove to be a drain on profits.

MARTIN BURN

The decline in earnings from the managed companies both in regard to remuneration and dividends was reflected in the working results of Martin Burn Limited for the year ended September 30, 1968. While sales declined to Rs 6·26 crores from Rs 7·08 crores, the net profit, after providing for depreciation and taxation, was substantially lower at Rs 10·64 lakhs as against Rs 23·15 lakhs for the preceding year. Depreciation was raised to Rs 2·90 lakhs from Rs 2·84 lakhs, while taxation was lowered to Rs 17·85 lakhs from Rs 37·00 lakhs. After crediting Rs 1·89 lakhs being provision for taxation no longer required and Rs 3·00 lakhs being provision for contingencies no longer required, a sum of Rs 11·70 lakhs is transferred to general reserve.

The directors have proposed a final dividend of 35 paise per share on the ordinary shares, making a total of 60 paise per share on the capital increased by the bonus issue as against a total of Rs 1·25 per share paid previously on the old capital. The final dividend and the dividend on the preference shares are payable out of general reserve. The directors state that, since the activities of the companies in the group related mainly to the engineering sector, the present conditions would continue until the engineering industry as a whole revived. The public utility companies, which were managed by the company continued to suffer from unhealthy competition and shortage of funds.

SEN-RALEIGH

The directors of Sen Raleigh Ltd propose to reduce the dividend from 9 per cent to 7 per cent for the year ended September 30, 1968, following the setback suffered by the company during the year. The company's net profit dropped from Rs 18·59 lakhs to Rs 13·26 lakhs, although there was a rise in sales from Rs 7·81 crores to Rs 8·43 crores. The company has applied to IFC for a further loan of Rs 56·20 lakhs.

PHILLIPS CARBON

The directors of the Phillips Carbon Black Limited have proposed to maintain the dividend at 15 per cent on the equity capital for the year ended November 30, 1968.

ENGLISH ELECTRIC

The English Electric Company of India Ltd recorded a profit, after providing for depreciation, of Rs 18·89 lakhs for the year ended September 30, 1968, as against Rs 24·13 lakhs in the preceding year. Adding thereto the provision for expenses made in previous years no longer needed Rs 5 lakhs, development and contingencies reserve written back Rs 25,000, and development rebate reserve written back Rs 2·50 lakhs, and after transferring Rs 2·50 lakhs to development rebate reserve and providing Rs 8 lakhs for taxation, the surplus available for appropriation is Rs 16·14 lakhs against Rs 11·32 lakhs in the previous year. Sales during the year were higher by 8 per cent to Rs 4·40 crores. Income from other sources, however, declined from Rs 27 lakhs to Rs 13·58 lakhs. As the cost of production was higher,

the trading profit as a percentage of turnover was lower than in the previous year.

CAREW AND COMPANY

Sales of Carew and Company Limited for the year ended September, 30, 1968, increased to Rs 334·90 lakhs from Rs 296·10 lakhs, and net profit after providing for depreciation and taxation, was also substantially higher at Rs 12·59 lakhs as against Rs 6·76 lakhs in the previous year. Development rebate reserve was reduced to Rs 24,000 from Rs 1·36 lakhs. All other allocations were increased depreciation from Rs 3·73 lakhs to Rs 4·14 lakhs, taxation from Rs 6·69 lakhs to Rs 15·81 lakhs and general reserve from Rs 4·73 lakhs to Rs 11·67 lakhs. The holders of ordinary shares have not received a dividend for many years. The directors have, therefore, recommended the payment of 60 paise a share. They have also decided to issue bonus equity shares of the nominal value of Rs 4·00 lakhs in the ratio of one for eight, subject to the consent of the Controller of Capital Issues. The company's Rosa distillery factory had a more normal supply of molasses and production was stepped up to some extent. The distillery at Asansol faced a serious shortage of molasses, although efforts were being taken to restore normal production as soon as possible. The position of the company's assets in Pakistan continued to be obscure.

NATIONAL PIPES AND TUBES

There has been a moderate decline in the working of National Pipes and Tubes Co. Ltd, with sales dropping to Rs 93·83 lakhs during the year ended September 30, 1968, as against Rs 111·40 lakhs in the previous year. After meeting all charges and providing Rs 3·40 lakhs for depreciation, the pre-tax profit has declined to Rs 10·77 lakhs from Rs 31·21 lakhs. Writing back Rs 70,000 from the development rebate reserve and transferring Rs 3·72 lakhs from dividend equalisation reserve, the directors propose to pay a dividend of 5 per cent on ordinary shares and 7·17 per cent on preference shares, absorbing Rs 3 lakhs and Rs 71,500 respectively. In the previous year Rs 6·72 lakhs had been drawn from the general reserve and Rs 1·27 lakhs as tax refund to adjust the account.

PREMIER CONSTRUCTION

The Premier Construction Co. Ltd has shown a gross profit of Rs 63·60 lakhs for 1968 against Rs 76·44 lakhs for the previous year. Managing agents' remuneration involved Rs 76,572, depreciation Rs 85,756 and taxation Rs 16 lakhs. A sum of Rs 47·94 lakhs was transferred to general reserve. The equity dividend was maintained at Rs 18 per share.

ASIAN CABLES

Asian Cables Corporation Ltd reported a sharp setback in its working for the year ended September 30, 1968, with a loss of Rs 29·08 lakhs against a gross profit of Rs 10·58 lakhs for the previous year. After providing Rs 13·76 lakhs for depreciation, the net loss amounted to Rs 42·84 lakhs. The directors have withdrawn a sum of Rs 4 lakhs from general reserve, reducing the loss to Rs 38·84 lakhs. With the loss of Rs 4·44 lakhs brought in, the deficit at the end of the year stood at Rs 43·28 lakhs.

MAHINDRA AND MAHINDRA

The working of Mahindra and Mahindra Ltd for the year ended October 31, 1968, revealed a sharp setback with its gross profit declining from Rs 113·09 lakhs to Rs 70·78 lakhs in spite of an increase in sales from Rs 21·66 crores to Rs 24·55 crores. The directors of the company, however, proposed to maintain the equity dividend for the year at 10 per cent. The company's net profit for the year amounted to Rs 24·91 lakhs against Rs 41·40 lakhs for the previous year after providing Rs 24·28 lakhs for depreciation, Rs 1·09 lakhs for development rebate reserve and Rs 20·50 lakhs for taxes. After writing back development rebate amounting to Rs 5·47 lakhs and taking credit for excess in respect of Mahindra Eng. Co. Ltd for Rs 7·18 lakhs and excess tax provision in respect of previous years aggregating Rs 9 lakhs, the directors have transferred a sum of Rs 3 lakhs to the preference shares redemption reserve, Rs 6·50 lakhs to general reserve and Rs 1 lakh to capital reserve. The proposed equity and preference dividends will absorb Rs 36·17 lakhs.

HINDUSTAN ZINC

Hindustan Zinc Ltd proposes to double its production of 18,000 tonnes during the next three years. Disclosing this recently the chairman, Mr Raghunath Singh, indicated that the company invited tenders for setting up of a Rs 3-crore plant to treat 2,000 tonnes of zinc per day. The plant was expected to be ready for operation by 1972. At present the existing plant is, capable of treating only 700 tonnes of zinc a day.

KAMANI ENGINEERING

The working of Kamani Engineering Corporation Ltd during the year ended September 30, 1968, resulted in a slightly lower net profit of Rs 11·04 lakhs, as compared to last year's Rs 11·68 lakhs, after providing Rs 22·56 lakhs for depreciation, Rs 5·73 lakhs for development rebate reserve, Rs 3·09 lakhs for managing agents' remuneration and Rs 11·70 lakhs for taxation. Sales increased to Rs 8·81 crores from Rs 6·36 crores. General reserve received Rs 10·90 lakhs. The equity dividend was maintained at 12 per cent which would absorb Rs 8·28 lakhs. The production of towers and other structures was 67 per cent higher than in the previous year. Orders for transmission line towers, erection and allied structures were Rs 10·85 crores at the end of the year against Rs 9·59 crores at the end of the previous year. At present the company has orders for Rs 13·26 crores on hand. Export realisations were Rs 94·94 lakhs. The company is exploring the scope for expansion and diversification.

CEAT TYRES

The Board of Directors of Ceat Tyres of India Ltd, have recommended the payment of a dividend of Rs 9 per ordinary share out of the general reserve, subject to deduction of tax for the year ended December 31, 1968. The Board also decided, subject to the necessary consents being obtained, to recommend the capitalisation of an amount of Rs 27·60 lakhs (Rs 22·69 lakhs) from the share premium account and Rs 4·91 lakhs from the exchange reserve) by the issue of fully paid shares of the company in the proportion of one bonus share for every ten ordinary shares held by the shareholders on a date to be fixed hereafter by the directors. The new shares will rank *pari passu* for dividend with the existing ordinary shares from the commencement of the current financial year of the company, January 1, 1969.

The company has produced satisfactory results for 1968 with its gross profit rising sharply to Rs 2·37 crores from Rs 1·62 crores for the previous year in the wake of a spurt in sales to Rs 21·05 crores from Rs 18·28 crores. Out of the gross profit, the company has provided Rs 37·33 lakhs for depreciation, Rs 1·05 crores for taxes, and Rs 8·73 lakhs for development rebate reserve, leaving a net profit of Rs 85·78 lakhs as against Rs 66·68 lakhs. From this disposable surplus, a sum of Rs 10 lakhs has been transferred to the dividend equalisation reserve and the balance of Rs 75·78 lakhs has been held in general reserve.

NATIONAL ORGANIC

The working of National Organic Chemical Industries Ltd in 1968 has resulted in a loss of Rs 3·09 crores after providing Rs 2·35 crores for depreciation and transferring Rs 1·85 crores to construction expenditure. Again

no provision has been made for taxation. Together with the accumulated loss of Rs 30·93 lakhs brought forward, the total loss carried forward works out to Rs 3·40 crores. No provision has been made for the development rebate reserve in view of the loss incurred. Sales amounted to Rs 6·84 crores, inclusive of products manufactured by the company, imports under the product loan and sole distributorship arrangements with foreign collaborators. The company made its first export of packed chemicals during the year. The majority of the plants were in commercial production during the year. The alcohol's plant and the PVC compounding unit were expected to be commissioned in the first and the second half of the current year respectively.

SYNDICATE BANK

Syndicate Bank Ltd has earned a higher net profit of Rs 31·26 lakhs during 1968 compared to Rs 25·25 lakhs in 1967, a rise of 24 per cent. The directors have proposed to maintain the equity dividend at 20 per cent on increased capital. Dividends on equity and preference shares will absorb Rs 21·04 lakhs. A sum of Rs 10 lakhs has been transferred to reserve fund. During the year the bank's deposits increased from Rs 80 crores to Rs 112 crores, a rise of 40 per cent and advances from Rs 46 crores to Rs 72 crores, a rise of 52 per cent. During the year, the bank opened 36 branches, out of which 22 were in unbanked areas. At the end of 1968 the bank had 254 branches.

GOODYEAR

The Goodyear India Limited has announced 20 per cent bonus for 1968 to its employees. This is the second consecutive year when the company had awarded 20 per cent bonus to its employees.

CAPITAL AND BONUS ISSUES

Consent has been accorded to twenty companies to raise capital amounting to over Rs 3·64 crores. Eighteen of them are to issue bonus shares amounting to over Rs 2·19 crores. The amount of bonus shares ranges between Rs 66,600 and Rs 1·20 crores. The consents are valid for twelve months. The following are the details :

Hepack Private Ltd, Bombay, has been accorded consent to capitalise Rs 1,00,000 out of its general reserves and issue fully paid equity shares of Rs 1,000 each as bonus shares in the ratio of two for every equity share held.

The Hindustan Times Ltd, New Delhi, has been granted consent to capitalise Rs 8,19,100 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for every equity share held.

Sigil (India) Services Private Ltd, Bombay, has been given consent to capitalise Rs 3,75,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for two equity shares held.

Unichem Laboratories Ltd, Bombay, has been accorded consent to capitalise Rs 9,00,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for every five shares held.

Bombay Cotton Private Ltd, Bombay, has been given consent to capitalise Rs 6,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of six for ten shares held.

Varuna Electricals Private Ltd, Ahmedabad, has been given consent to capitalise Rs 2,25,600 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of three for every equity share held.

Khas Kajora Coal Company Ltd, Calcutta, has been granted consent to capitalise Rs 4·5 lakhs from its free reserves [and issue bonus shares of Rs 10 each in the ratio of one for every four equity shares held.

J.B.A. Printing Inks Private Ltd, Bombay, has been granted consent to capitalise Rs 5,00,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of five for every six equity shares held.

Caprihans India (Private) Ltd, Bombay, has been given consent to capitalise Rs 15,75,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for two equity shares held.

The Universal Filtration Company Private Ltd, Bombay, has been accorded consent to capitalise Rs 1,50,000 out of its general reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of two for every equity share held.

Coorg Tea Company Ltd, Bangalore, has been given consent to capitalise Rs 3,20,000 out of its general reserves and issue fully paid equity shares of Rs 2 each as bonus shares in the ratio of one for two equity shares held.

The Universal Tyres Ltd, Calcutta, has been given consent to issue capital of Rs 70,00,000 divided into 5,80,000 equity shares of Rs 10 each and 12,000 (9·5 per cent) cumulative redeemable preference shares of Rs 100 each for cash at par, to finance the project for the manufacture of bicycle tyres and tubes.

Golden Tobacco Company Private Ltd, Bombay, has been given consent to capitalise Rs 1,20,00,000 out of its general reserves and issue fully paid 'B' class equity shares of Rs 10 each as bonus shares in the ratio of 20 'B' class equity shares for every 'A' class equity share of Rs 100 each and two 'B' class equity shares for every 'B' class equity share of Rs 10 each held.

Salem Services Private Ltd, Coimbatore, has been granted consented to capitalise Rs 66,600 out of its free reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for every two equity shares held.

L. G. Balakrishnan & Bros. Private Ltd, Coimbatore, has been accorded consent to capitalise Rs 12,60,000 out of its free reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of six for every five equity shares held.

Rohtas Industries Ltd, Calcutta, has been granted permission to issue 7,500 mortgage debentures of Rs 1,000 each carrying interest at 7·75 per cent per annum, amounting to Rs 75 lakhs to be lodged as security with the banks/financiers for obtaining loans, to finance working capital of the company.

South Karanpura Coal Company Ltd, Calcutta, has been accorded consent to capitalise Rs 7 lakhs out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of two for five equity shares held.

Reliable Water Supply Service of India (Private) Ltd, Lucknow, has been given consent to capitalise Rs 2,77,300 out of its general reserves and issue 2,773 fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for four equity shares held.

Seth Hassaram & Sons (India) Private Ltd, Calcutta, has been given consent to capitalise Rs 75,000 out of its general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for two equity shares held.

The Ajodhia Textile Mills Ltd, Delhi, has been accorded consent to capitalise Rs 15·75 lakhs out of its general reserves and issue 3,15,000 bonus shares of Rs 5 each in the ratio of one bonus share for every equity share held.

COMPANY MEETINGS

The Chartered Bank Group

Chairman Mr. W. G. Pullen's Statement

The following are extracts from the Statement by the Chairman, Mr. William George Pullen, to be presented at the Annual General Meeting of The Chartered Bank on 2nd April 1969, at 38 Bishopsgate, London, E. C. 2.

In last year's statement, which followed quickly on the heels of the devaluation of sterling, I expressed the view that we operated in enough non-sterling countries and countries which had not devalued to be optimistic about future profits, and our satisfactory results for 1968, particularly from the branches, confirm this assessment. This bald statement of achievement covers however a particularly difficult and frustrating year, during which currency crises were never far away. A British bank like ourselves, operating mainly overseas, has particular problems if sterling is weak for we cannot suddenly refuse to cover the commercial transactions of customers of long standing at our many branches and at some of these, as much as we endeavour to avoid it, we are left with temporary risks against the value of sterling. Then too, lack of confidence abroad in this country can mean a withdrawal of sterling deposits by our overseas customers. An unfortunate trend too for invisible exports is the gradual switch out of sterling for trade and shipments which have traditionally been handled in sterling and are now being covered by letters of credit denominated in U.S. dollars and other currencies.

In spite of currency problems and restrictions the Group pursued a policy of expansion overseas and opened new branches in different areas, while at home we continued to look for means of diversifying our business. As our authorised capital of £ 10 million is now fully issued we propose its increase to £ 15 million and stockholders will be asked to agree to the special resolution at the annual general meeting. There are no plans at the moment for utilising any part of this additional authorisation.

As might be expected from the growth in our business the number on our staff both home and overseas is also increasing steadily and now totals 8,850. A notable feature is the ever increasing proportion of local officers on our covenanted staff and their local knowledge does much to supplement the experience of our expatriate officers. We have reason to be very grateful for the loyalty and zeal of all who serve us, for this is the inherent strength of our organisation.

THE ALLAHABAD BANK LTD.

The inexorable rise in overheads, coupled with a stagnation in the Indian economy caused by the recession, has had a depressing effect on the profits of our associate and it is scant consolation that the somewhat disappointing performance applies equally to all banks operating in the sub-continent. However, with the economy now showing some signs of recovery we can look forward with a degree of confidence to more beneficial results in the year which lies ahead.

It is particularly unfortunate for Mr K. M. Nanjappa, our Chairman, that a setback in profits should come in a year in which he pursued energetically a policy of obtaining a realistic output from the staff and of increasing business. Eleven new branches of the bank were opened in 1968 and it is hoped that at least an equivalent number will come into operation this year. While these new offices initially constitute a burden on profits, there is no doubt that in the course of time they will become a very valuable part of our establishment.

THIS YEAR'S ACCOUNTS

Our consolidated balance sheet totals now stand at £907 millions, an increase of £106 millions on the figure for 1967. Current Deposit and Other Accounts have increased by £95 millions and the greater part of this increase is in the books of our overseas branches and subsidiaries. Advances have increased by £57 millions, reflecting the expansion of our overseas business as restrictions at home have severely limited any expansion in the United Kingdom. The Bank's capital and consolidated published reserves together with the balance on profit and loss account now total £25,045,011. In the Bank's own accounts an amount of £2,532,500 has been transferred from inner reserves to its published reserve, bringing the amount of the Reserve Fund up to £13,882,500. The rights issue about which I wrote to you on 13th November will increase the issued capital to £9,680,000 and the Bank's own Reserve Fund to £16,000,000, so that stockholders' funds appearing in the consolidated balance sheet will then total over £28,000,000, an amount which is more in keeping with the size of the balance sheet.

PROFITS AND DIVIDENDS

After making the usual provisions and deducting minority interests in subsidiaries, the consolidated net profit for the year is £2,477,407, an increase of £350,028 on the previous year. Overheads, both at home and overseas, continue to increase, due not only to the expansion of our business but also to the world-wide effects of inflation on staff emoluments and other costs and I am pleased to be able to report that we have again been able to absorb the increase in overheads from the profits earned on a greater volume of business.

With the balance of profit brought forward from last year of £857,564 the amount available for distribution is £3,334,971 out of which £584,695

has been transferred to Reserve Funds and £490,000 to Reserves for Contingencies. The interim dividend of 7½% paid in September 1968 absorbed £635,250 and it is now proposed to pay a final dividend of 7½% making 15% for the year. The balance to be carried forward to 1969 will then be £989,776.

INDIA

In a year in which India was trying hard to pull itself out of a depression it is not surprising that the government's thoughts and efforts were mainly on internal problems and perhaps because of this external relations seemed comparatively uneventful. The criterion of a good year must be the extent to which its agriculture could supply the needs of its people, and despite flooding and drought in some parts of the country, the harvest is likely to match the excellent results of 1967 and as a result import requirements for 1968 are estimated to be 7½ million tons, a reduction of 1 million tons on the previous year. The talks of an agricultural revolution following the bumper crops of that year after two consecutive years of drought have faded somewhat through lack of follow-through in further irrigation, soil conservation and rural electrification. The government has however, in order to give new impetus to its policy of intensive promotion, enjoined the Reserve Bank to provide credit facilities and commercial banks are now being urged to expand in the rural areas to help the farmers. The government's target is self-sufficiency in food production within the next three years.

Under the guidance of the Reserve Bank of India most banks had already anticipated the requirements of the Banking Laws Amendment Bill and our own local advisory board, under the chairmanship of Mr C. S. Divekar, a former deputy governor of the Reserve Bank of India, has now been functioning for over a year. The board has taken a keen and helpful interest in the affairs of the bank in India and we look forward with confidence to a long and fruitful relationship.

CONCLUSION

Last year at the end of the review I remarked on the extent to which the developing countries with liberal governments encouraging private enterprise are the most successful economically and politically, and a further year not only confirms that this is so but shows that it could be extended to include many of the so-called developed countries also.

With ever greater ease in communications and with increased international co-operation in so many fields it seems on the face of it anachronistic that countries, including our own, should be concerned to such an extent in isolating thier own trade and finances by restrictive regulations. There is no reason to believe that the world currency system as we have known it since the war is wrongly based or is incapable of financing increased world trade. The I.M.F.'s special drawing rights will also give more flexibility to the system when they are introduced but floating rates and other devices of the economists seem no answer to today's problems, which seem to stem more from differing degrees of efficiency and leadership in different countries.

The extent to which internal performance is reflected in overseas strength is often overlooked and in these days, when it is essential for the developing countries that world trade should increase, it is ironic that some of the donors of aid should themselves take restrictive external measures to offset internal inflation and high cost production. It is against this background that The Chartered Bank Group is operating in thirty countries and in its traditional manner allying itself with the economy of the countries in which its branches or associate companies are situated

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED

Statement of the Chairman to the Shareholders

The Annual General Meeting of the Shareholders of the Corporation will be held at the Registered Office of the Corporation, 163 Backbay Reclamation, Bombay-1, on Thursday, April 10, 1969. The following is the Statement by the Chairman, Shri G. L. Mehta, circulated to the Shareholders with the Directors' Report and Accounts for the year ended December 31, 1968.

I have pleasure in placing before you for your consideration the Fourteenth Annual Report of the Board of Directors of the Corporation for the year ended December 31, 1968.

2. After a long time, there appear to be signs of some revival in the economy. After the record harvest of 1967-68, the monsoon in 1968-69 was not very favourable, but thanks to much larger inputs particularly of high yielding variety seeds, fertilisers and pesticides the crop out-turn this year is likely to be as good as last year. This is an achievement which Government can be proud of. For, while the total crop must remain dependent upon the monsoon (the area under irrigation being only 30 per cent of the total cropped area), the main impact of high inputs is to increase the base level of agricultural output that can be achieved irrespective of the fluctuations of the monsoon.

3. Another important improvement in the year under review is in respect of our exports: partly, a large agricultural output creates an exportable surplus in our traditional exports, particularly cotton and cotton manufactures as also oilseeds. However, the more heartening feature of the spurt in exports during 1968 has been the performance of non-traditional exports—engineering goods and chemicals. While aggregate exports have increased by about 10 per cent, the increase in non-traditional exports has been much larger.

4. As a result of both these factors, there appears to have been some revival in demand for industrial products: the growth in industrial output in 1968 in relation to the previous year has been at the rate of 5 to 6 per cent against a more or less stagnant output over the previous two years. It is necessary to recognise the basic elements in this growth of demand. The agricultural revival has fostered the demand for simple consumer goods like cotton textiles and sugar. Moreover, exports have been a basic factor in the growth of demand for engineering goods. This growth has had repercussions on other supplier industries, thus indicating the broader impact of the basic impulse.

5. These basic trends have been strengthened by various policies followed by Government The Budget for 1968-69 provided for a subsidy to commercial banks on export finance; this was soon followed by a cut in the bank rate. The price level seems to be reaching some sort of stability, and the banking industry is now able to meet adequately the demand for funds from industry. The Reserve Bank announced measures to provide low-interest credit for export finance; the initiative taken by the Industrial Development Bank of India in providing cheap credit for priority activities like exports is commendable. Besides, IDBI has also been seeking to meet the increasingly diversified financial needs of the economy, particularly in financing sales of local equipment and machinery. Finally, Government announced the setting up of the Foreign Investment Board as also a policy enunciating areas open for foreign collaboration and investment. There has been a rise in prices on the stock exchange and investment demand has broadened. In this context, it would be desirable for Government to reconsider its licensing policy so as to relax it further by increasing, for example, the limit to which no industrial licence would be required and permitting further diversification of established capacity; as in the case of Capital Issues Control, Government might consider laying down ground-rules for industrial licensing, leaving industry freedom to operate within the broad limits of such rules.

6. These events are clearly reflected in the operations of ICICI. In the first half year, the demand for funds was low, and in fact, we were faced with many cancellations, particularly of past foreign currency sanctions where entrepreneurs had second thoughts on their projects in the changed economic context. However, in the second half of the year, thanks to vigorous effort, we were able to improve the rate of our sanctions; these will be reflected in increased commitments and disbursements over the next two years.

7. Now that signs of economic revival are clearly visible, the need for a positive policy charting the course for the economy over the coming years becomes all the more necessary. It is necessary to lay down a minimum programme for essential growth and policies intended to achieve them.

8. Promotion of agriculture and exports in which efforts have already begun should constitute a principal element in such a programme. At present, almost two-thirds of the fertilisers utilised by agriculture in the country are obtained from imports. This balance will change as domestic production of nitrogenous fertilisers increases. However, there appears to have been some slow-down in the approval of new projects. In view of the continuing need for fertilisers on a large scale, it is imperative that Government initiate work on feasibility studies for new fertiliser projects based on different feed-stocks and locations. It is equally essential that before Government takes final decisions it has open to it the full range of alternatives available to it.

9. While the progress made in exports of non-traditional goods, particularly in relation to past levels, is commendable, it has to be recognised that the absolute level of such exports, at about Rs. 60 crores, is still small : of total exports, they form only five per cent, and of total industrial production, less than two per cent. There is, therefore, no cause for any slackness or complacency in the export effort. In fact, considering the increasing debt servicing charges over the next five years owing to past borrowings and taking into account the likely slow-down in foreign aid (of which indications are already available), it is imperative that our exports increase substantially over the next five years; a substantial contribution to such an effort would have to be made by non-traditional exports.

10. It is in the field of industry that no such clear-cut choices are avail-

able. Nevertheless, the experience of the last few years shows that it is not enough to rely on a general recovery in market for determining a programme for industrial growth. There are two main elements which should govern the outline of the industrial programmes for the next five years: firstly, it is necessary to examine in detail the constituents of demand for different products and determine the factors governing their growth; and secondly, where adequate demand exists, it is essential to provide for adequate supplies to enable industry to meet that demand; this is particularly necessary in respect of imports.

11. Significantly, several industries—railway wagons and stores, electric cables and meters, cast iron spun pipes, and even cement—are those in which Government, directly or indirectly, plays an important role as a consumer. Government expenditure is a factor which is within Government's control, and it should be possible for it to plan ahead its expenditure, and, on this basis, to indicate the level of demand for goods purchased for it. We are never tired of advising foreign governments to revise their annual budgeting procedures and to commit aid for a five-year period to suit development needs. It is high time we took this advice ourselves, and commited at least developmental expenditures over the Plan period to enable suppliers of goods to plan their capacity and production programmes accordingly.

12. The prevailing trends indicate that the foreign exchange constraint might become in some respects more serious in the next few years. The present easiness in our foreign exchange situation is to some extent illusory since it is based on considerably low utilisation of capacity in many industries. A realistic estimate of the requirement of the utilisation of foreign exchange at a level where capacity is fully utilised needs to be made. I do not doubt that a large proportion of demand, as capacity becomes more fully utilised, will be internal, and thus prove to be self-supporting. However, the demand for imports set up by such fuller utilisation, though marginal in relation to the total needs of industry, would be critical, and might be a serious impediment to our efforts to utilise fully industrial capacity.

13. In this context, I should stress that we examine carefully further requirements of foreign exchange, both on capital and current account, of any new programmes undertaken. We should so arrange such programmes that they come within reasonably estimated availability of our foreign exchange resources—exports plus foreign aid less servicing charges. The economy can hardly afford the continuous "stop-go's" caused be foreign exchange shortages.

14. In the light of these considerations, the industrial programme will need to be framed with care. The first priority should be to take steps to utilise fully the capacity already established. Since Government plays an important part as a consumer in many of these industries, Government would have to raise the level of its outlay on these items. Government would recover a part of this outlay through increased revenues—particularly excise and corporation taxes. Government could also link such a programme with definite export commitments by the units; in fact, the large and stable home demand which Government would create through its purchases, should provide a strong base for a determined export effort.

15. During the last eighteen years of planning, the country has built up a large base of simple technology-based industries. While a lateral expansion of these industries must go on to provide increasing quantities of the products (*e.g.*, textiles, sugar, cement, paper, as also plant and equipment for their manufacture) made by them, steps should be taken to see that we expand industry vertically to cover instrumentation and other items. In other words, the next phase of our development must cover electronic and the other more sophisticated industries. The country should seek now to enter the more skill-intensive industries as also industries which have a large value added content: as examples I would mention cameras, helicopters, computers, television and other electronic assembly activities; many of these industries would also help to strengthen our export potential. I am glad to note that designing is obtaining proper recognition from industry as well as Government, and that the country is willing to provide consultancy services and undertake turn-key jobs abroad. The programme for the development of these industries should be so laid down as to cause the least strain on foreign exchange resources at any point of time.

16. A change of emphasis is also called for in other spheres of economic development. Some of these are consequences of the measures suggested earlier. For example, if greater investment is made in agriculture, the transport programme will have to be formulated accordingly. Since agriculture is necessarily the most decentralised sector in the economy, transport leads for agricultural produce are small; such transport needs can be met more easily by road transport. We should, therefore, provide for adequate development of road transport to serve agricultural programmes.

17. In recent years, most countries have seen a rapid growth of road transport. If the nineteenth century was an era of the steam engine, the twentieth is that of the internal combustion engine. Apart from its economic impact, road transport can play a major part, in a country like India, in reducing the barriers between urban and rural areas and in enabling a wider geographical distribution of industry in the country. Road transport is an essential industry, and it would not be ambitious to plan to double automobile production over the next five years. Such a programme would also expand considerably the activities of several ancillary industries. Moreover, it would help to develop a broad group of industries connected with automobile manufacture and thus help economic recovery.

18. Another consequence of agricultural development would be the pull that rural areas would have for various industries through their increasing purchasing power. In this situation, Government should seek to expand distribution facilities for power. This would help to create and expand the demand for electrical goods like transformers, cables and meters, of several industries in which there is excess capacity. It is also essential to reduce the gap between rural and urban areas by increasing various amenities in rural areas. In this connection, I would like to emphasise the vital importance of housing and of clean water supply. Such a programme would also benefit the construction industry. All these measures would help to reduce the wide gap in amenities between urban and rural areas which exists today; and it would act as an active, modernising influence in rural areas, bringing the rural consumer into the modern market economy.

19. What we have experienced in the past two or three years is a virtual stagnation in investment activity; in fact, the comparatively easy conditions in which banks and finance institutions operate at present show that there is not an adequate number of new projects available. While this has been primarily due to several exogenous factors and has, indeed, been useful in bringing about a consolidation in the economy, it is necessary to recognise the need for revitalising the investment process. As the industrial upsurge has continued, capacity is being more fully utilised, and unless we plan steps to increase capacity, we are likely to be faced with shortages again.

20. As the pace of industrialisation increases, it will have an impact on the magnitude and structure of institutional finance to industry. One recent development in this field has been the introduction of merchant banking facilities in the country. For banks, this represents a diversification of their activities; for industry, it would mean better servicing by banks—particularly as regards advice on capital structure, mergers and tax questions. As industry grows and the industrial structure becomes more diversified, its

ervicing needs become more sophisticated, and in this context, a development like the setting up of merchant banking facilities should prove welcome.

21. Moreover, for various reasons which I have mentioned earlier, our development effort will be oriented towards the use of local resources —a development which I consider to be wholly desirable. This would, however, create a larger demand for rupee finance. So far, Government has provided the required rupee resources to the finance institutions to enable them to meet the needs of industry—a service for which industry should be grateful to Government. However, the present system involves *ad hoc* discussions with Government for the supply of such finance, and makes the provision of such finance subject to the vicissitudes of governmental finances.

22. I feel, therefore, that Government should make long-term and self-operating arrangements to meet the rupee needs of the finance institutions. A part of the flow of funds in the economy emanates from industry—I refer particularly to the accretion of funds on provident fund account. It is necessary that a proportion of these funds is directly diverted to industry to foster its growth. It is for this purpose that we have in the past suggested that the bonds and issues of a finance institution like this Corporation—which was set up with the active support of Government and to which Government has in the past provided rupee resources through loans—be declared trustee securities so that funds whose investment policies are statutorily controlled can invest in such bonds and issues. The small loss of resources which Government would suffer immediately because of such a change would be more than compensated by the more rapid growth brought about by the increasing pace of industrialisation as a result of the financing activities of the institutions.

23. Finally, as we move into more sophisticated industries, the demand for foreign currency loans will increase. The use of the Corporation's foreign currency resources has already picked up, and with the support and confidence of the International Bank for Reconstruction and Development and the Kreditanstalt fur Wiederaufbau of the Federal Republic of Germany we hope to continue to meet fully these needs.

24. As you are aware, this Corporation has always been alive to the varying needs of the economy and has sought to meet them to the extent possible. During the last two years, the main trend has been in meeting the aggregate financing needs of industry for balancing equipment, modernisation and production of quality products. We have also provided further finance on a larger scale to the shipping industry. In addition, we have begun to provide on a selective basis finance to the jute industry. Both these industries are important to the country's export effort.

25. The increase in sanctions in 1968, despite the difficult conditions, has been made possible by the management's efforts to seek out investment opportunities in the economy. We envisage that the Corporation would be playing a larger role in the economy, both in rupee and foreign currency operations and in the services provided, in the coming years. As part of this widening of our role, I am glad to inform you that the Board has already decided to open branch offices beginning with Calcutta. I am confident that this will help to strengthen our relations with our clients all over the country.

26. Net sanctions during 1968 amounted to Rs. 30·95 crores. Of these, an amount of Rs. 14·04 crores was in respect of 36 specific projects. The total cost of these projects, when completed, is estimated at Rs. 126·31 crores (including Rs. 25·75 crores for working capital requirements). This cost is proposed to be met by Rs 17·36 crores share capital (Rs. 14·81 crores ordinary and Rs. 2·55 crores preference), Rs. 51·83 crores long-term loans and debentures, Rs. 0·36 crore deferred payments and Rs. 56·76 crores bank borrowings, unsecured deposits and cash accruals. The total turnover of these projects in a year of normal production is estimated to amount to Rs. 83·94 crores.

27. During the year under review, the Corporation augmented its rupee resources by a loan of Rs. 2·5 crores from the Industrial Development Bank of India, bringing the total lending by IDBI to Rs. 10·5 crores.

28. The World Bank has so far made available to the Corporation seven lines of credit aggregating $165 million. This amount will shortly get exhausted, and we propose to approach the World Bank for a further line of credit during the current year. The Corporation has so far received seven lines of credit amounting to DM 72·5 million from KFW and negotiations are under way for an eighth line of credit for DM 5 million. Negotiations are also under way for a line of credit of £1 million from the British Government.

29. Income from interest, dividends, underwriting commission and other sources amount to Rs. 840·60 lacs in 1968 (Rs. 785·58 lacs in 1967). Interest paid on loans and other expenses during the year amount to Rs. 567·98 lacs (Rs. 517·20 lacs in 1967). Profits before tax amounted to Rs. 272·62 lacs (Rs. 268·38 lacs in 1967). Out of this, provision for taxation has been made at Rs. 128·93 lacs (Rs. 128·64 lacs in 1967). Of the balance of Rs. 143·69 lacs (Rs. 139·74 lacs in 1967) carried to the appropriation account, Rs. 25 lacs (Rs. 20 lacs in 1967) has been transferred to General Reserve, Rs. 20 lacs to Reserve Against Doubtful Debts (Rs. 15 lacs in 1967) and Rs. 36 lacs (Rs. 35 lacs in 1967) has been taken to Special Reserve; in addition, the whole of the capital gain of Rs. 5·51 lacs after taxation (Rs. 5·04 lacs in 1967) has also been transferred to Capital Reserve Not Available for Dividend. The Directors are glad to recommend a dividend of 9 per cent (the same as last year).

30. The Board of Directors had the honour to meet Mr. Robert McNamara, President of the World Bank, during his visit to Bombay on November 23, 1968, when it had the opportunity of discussing with him the general economic situation as well as the operations and prospects of the Corporation.

31. In 1968, the Economic Development Institute (an affiliate body of the World Bank) sent two trainees—Mr. C. A. Ogwang from Uganda and Mr. G. Mulugeta from Ethiopia—for practical training with the Corporation for a period of two weeks. The Corporation also provided facilities to officials from different finance institutions and other organisations in the country to study its procedures and methods of work. Besides, we had with us, for various periods, Mr. E. P. L. Gyampoh and Mr. Asare Bedaiko from Ghana, Mr. Jose de Jesus from the Philippines and Mr. Abdulla Mohmed from Mauritius. Under our own training programme, we have invited this year officers from the Private Development Corporation of the Philippines and the Development Finance Corporation of Ceylon for training with us.

32. We have deputed, for a period of one year, Shri P. K. Doshi, Accountant, as the Assistant General Manager of the Nigerian Industrial Development Bank Limited. One of our officers participated in an eight week Special Training Programme conducted by the International Finance Corporation, in co-operation with the International Bank for Reconstruction and Development, designed to acquaint selected officials of member countries with the work and policies of the Bank and the Corporation. Some of our officers have also attended executive development programmes held by various management training institutes within the country.

33. Finally, I would like to mention that this Corporation has continued to receive from its staff devoted service; I would like to take this opportunity to express my sincere thanks to them.

G. L. MEHTA
Chairman

Bombay

BALANCE SHEET OF THE STATE BANK OF

As at 31st December, 1967 Rs. P.	Rs. P.	CAPITAL AND LIABILITIES	As at 31st December, 1968 Rs. P.	Rs. P.
		1. **Capital :**		
	1,00,00,000 00	Authorised Capital—1,00,000 shares of Rs. 100/- each	1,00,00,000 00	
35,00,000 00		Issued, Subscribed and Paid-up Capital—[pursuant to Section 7(1) of the State Bank of India (Subsidiary Banks) Act, 1959]—35,000 shares of Rs. 100 each.		35,00,000 00
32,40,000 00		2. **Reserve Fund and other Reserves**		33,85,000 00
		3. **Deposits and other Accounts :**		
	21,45,08,535 92	*Fixed Deposits	22,63,54,070 91	
	9,29,10,677 27	Savings Bank Deposits	11,63,75,452 26	
38,13,38,683 07	7,39,19,469 88	*Current Accounts, Contingency Accounts etc.	8,76,67,090 95	43,03,96,614 12
		4. **Borrowings from other Banking Companies, Agents, etc. :**		
	..	** (i) In India	39,702 02	
..	..	(ii) Outside India	..	39,702 02
12,51,874 86		5. **Bills Payable**		59,54,008 63
		6. **Bills for Collection being Bills Receivable as per contra :**		
	1,63,46,908 44	(i) Payable in India	2,17,85,945 72	
1,63,47,208 44	300 00	(ii) Payable outside India	..	2,17,85,945 72
		7. **Other Liabilities :**		
	1,75,000 00	Dividend for the year	1,75,000 00	
	4,69,61,047 30	Branch Adjustments	33,90,782 37	
	66,60,987 44	Others	76,83,873 73	
5,37,97,034 74	..	Liability on account of assets taken for collection of taken over Bank as per contra	2,42,741 06	1,14,92,397 16
1,16,95,835 89		8. **Acceptances, Endorsements and other Obligations as per contra**		1,20,51,628 88
		9. **Profit and Loss:**		
	6,791 76	Balance brought forward from last year	935 87	
	6,89,144 11	Profit for the year	7,20,798 22	
	6,95,935 87		7,21,734 09	
		Less Appropriations		
	1,40,000 00	Amount transferred to Reserve Fund	1,45,000 00	
	3,70,000 00	Bonus to Staff	3,90,000 00	
	10,000 00	Amount transferred to Staff Welfare Fund	10,000 00	
935 87	1,75,000 00	Amount set aside for payment of Dividend	1,75,000 00	1,734 09
		10. **Contingent Liabilities :**		
	2,85,272 49	Claims against the Bank not acknowledged as debts	2,07,746 65	
	71,82,464 38	Guarantees given on behalf of customers	45,84,712 81	
	1,276 80	Other moneys for which the Bank is contingently liable	..	
	6,89,349 41	Outstanding Forward Exchange Contracts (Sale)	3,57,808 63	
47,11,71,572 87	TOTAL		TOTAL	48,86,07,030 62

*Includes Staff Welfare Fund, ownership whereof vests in the Bank.

**Secured by pledge of Government Securities of the face value of Rs. 5,69,39,700 as per contra.

?ATIALA AS AT 31st DECEMBER, 1968

As at 31st December, 1967 Rs. P.	As at 31st December, 1967 Rs. P.		PROPERTY AND ASSETS			As at 31st December, 1968 Rs. P.	As at 31st December, 1968 Rs. P.
		*1.	**Cash :**				
9,08,31,650 50			In hand and with Reserve Bank and State Bank of India and its Subsidiaries (including foreign currency notes)				8,82,31,862 47
		2.	**Balances with other Banks :**	On Current Account	On Deposits		
	3,964 27		(i) In India	4,137 94	..		
46,316 92	42,352 65		(ii) Outside India	1,47,630 33	..		1,51,708 27
3,05,00,000 00		*3.	**Money at Call and Short Notice**				2,54,00,000 00
		4.	**Investments [at or below market value except in respect of sub head (1) which is at book value]**				
	9,16,21,107 82		(i) Securities of Central and State Governments and other Trustee Securities (Including Treasury bills of Central Government—Nil, previous year - Nil)			10,34,08,431 30	
			(ii) Shares :				
	5,270 00		(a) Fully Paid Preference	4,770 00			
	15,707 97		(b) Fully Paid Ordinary	23,411 19		28,181 19	
	8,90,000 00		(iii) Debentures or Bonds			8,90,000 00	
	2,00,000 00		(iv) Other Investments			2,00,000 00	
9,27,32,085 79	..		(v) Gold			..	10,45,26,612 49
		5.	**Advances :**				
			(Other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors)				
			(i) Loans, Cash Credits and Overdrafts, etc.				
	11,41,71,796 12		(a) In India			21,66,87,864 98	
	..		(b) Outside India			..	
			(ii) Bills discounted and purchased				
	53,32,728 19		(a) Payable in India			93,65,891 71	
11,95,05,038 81	514 50		(b) Payable outside India			..	22,60,53,756 69
			(Particulars of advances : See separate statement appended)				
		6.	**Bills Receivable being Bills for Collection as per contra :**				
	1,63,46,908 44		(i) Payable in India			2,17,85,945 72	
1,63,47,208 44	300 00		(ii) Payable outside India			..	2,17,85,945 72
1,16,95,835 89		7.	**Constituents' Liabilities for Acceptances, Endorsements and Other Obligations as per contra**				1,20,51,628 88
		8.	**Premises less Depreciation :**				
	7,56,936 19		Total cost upto the 31st December, 1967			7,57,497 19	
	561 00		Additions			1,25,540 34	
	7,57,497 19					8,83,037 53	
6,23,129 11	1,34,368 08		*Less* Depreciation			1,53,600 42	7,29,437 11
		9.	**Furniture and Fixtures less Depreciation :**				
	12,41,445 77		Total cost upto the 31st December, 1967			13,70,802 06	
	1,36,202 56		Additions			3,12,373 59	
	13,77,648 33					16,83,175 65	
	6,846 27		*Less* Deductions			5,035 42	
	13,70,802 06					16,78,140 23	
7,96,226 92	5,74,575 14		*Less* Depreciation			7,03,876 41	9,74,263 82
		10.	**Other Assets :**				
	70,96,183 02		Adjusting Account of Interest, Commission etc.			74,96,180 12	
	2,97,976 88		Stationery and Stamps			3,21,163 29	
	3,476 50		Security Deposits			4,161 10	
	3,89,452 00		Suspense Account			2,80,571 41	
			Motor Car and Van				
	79,469 29		Cost as at 31st December 1967	79,469·29			
	..		Additions	62,701·50			
	79,469 29			1,72,170·79			
	79,469 29		*Less* Depreciation	95,144·67		47,026 12	
	1,218 13		Property not used as Bank premises less depreciation			1,187 68	
	..		Assets taken over for collection of taken over Bank as per contra			2,42,741 06	
	1 00		Shares of Joint Stock Companies in liquidation (at estimated market value)			1 00	
	..		Advance payment of telephone rents under O.Y.T. Scheme			12,230 00	
77,96,458 64	8,151 11		Unsold stocks of Rayianwala Estate			..	84,05,261 78
2,97,621 85		11.	**Non-Banking Assets acquired in satisfaction of Claims (at estimated market value)**				2,96,493 39
..		12.	**Profit & Loss**				..
47,11,71,572 87	TOTAL					TOTAL	48,86,07,030 62

***Figures of the previous year have been recast to make them comparable with those of the current year.**

THE STATE BANK OF PATIALA

PARTICULARS OF ADVANCES

As at 31st Dec. 1967 Rs. P.		As at 31st Dec. 1968 Rs. P.
8,44,10,973 00	(i) Debts considered good in respect of which the Bank is fully secured.	18,40,78,687 68
21,47,184 30	(ii) Debts considered good for which the Bank holds no other security than the debtors' personal security.	40,20,642 75
3,29,46,881 51	(iii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors.	3,79,54,426 26
..	(iv) Debts considered doubtful or bad, not provided for.	..
11,95,05,038 81		22,60,53,756 69
4,63,976 77	(v) Debts due by Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons.	6,46,599 87
..	(vi) Debts due by companies or firms in which the Directors or Local Board Members of the Bank are interested as Directors, Partners or Managing Agents or, in the case of private companies, as members.	..
5,13,743 11	(vii) Maximum total amount of advances, including temporary advances, made at any time during the year to Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons.	6,79,652 64
..	(viii) Maximum total amount of advances, including temporary advances, granted during the year to the companies/firms in which the Directors or Local Board Members of the Bank are interested as Directors, Partners or Managing Agents or, in the case of private companies, as members.	..
1,05,674 69	(ix) Due from banking companies.	1,16,21,610 96

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1968

Year ended 31-12-1967 Rs. P.	EXPENDITURE	Year ended 31-12-1968 Rs. P.	Year ended 31-12-1967 Rs. P.	INCOME (Less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	Year ended 31-12-1968 Rs. P.
1,35,34,445 14	1. Interest paid on Deposits, Borrowings, etc.	1,52,03,250 63	1,85,74,786 76	1. Interest and Discount.	2,27,57,554 63
63,04,213 54	2. Salaries and Allowances and Provident Fund.	81,57,105 02	29,61,635 68	2. Commission, Exchange and Brokerage.	28,85,681 34
2,520 00	3. Directors' and Local Committee Members' Fees and Allowances	2,830 00	11,713 55	3. Rents.	26,511 29
2,83,566 35	4. Rent, Taxes, Insurance and Lighting etc.	3,33,872 48	..	4. Net Profit on sale of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular fund or account).	38,325 00
23,146 58	5. Law Charges.	1,00,371 60			
2,47,250 58	6. Postage, Telegrams and Stamps	3,28,606 13			
5,000 00	7. Auditors' Fees.	6,000 00	..	5. Net Profit on Revaluation of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular fund or account).	..
1,71,229 99	8. Depreciation on and Repairs to the Banks' Property.	2,10,896 44	30,005 30	6. Income from Non-Banking Assets and profit from sale of or dealing with such assets.	29,775 95
1,97,970 09	9. Stationery, Printing, Advertisement etc.	2,31,726 03			
..	10. Loss from sale of, or dealing with Non-Banking Assets.	..			
5,40,146 50	11. Other Expenditure.	6,93,211 61	4,20,491 59	7. Other Receipts (including subsidy from the State Bank of India in terms of Section 48 of the State Bank of India (Subsidiary Banks) Act, 1959 Rs. 1,67,985.00 previous year Rs. 3,09,087.00).	2,50,819 95
6,89,144 11	12. Balance of Profit.	7,20,798 22			
2,19,98,632 88	Total	2,59,88,668 16	2,19,98,632 88	Total	2,59,88,668 16

PARTICULARS OF REMUNERATION RELATING TO THE GENERAL MANAGER,

THE STATE BANK OF PATIALA

HEAD OFFICE, THE MALL, PATIALA.

For the Years 1967 and 1968

For the year ended 31st December	Salaries	Allowances	Sitting fees	Bonus	Employer's contribution to Provident Fund, Pension Fund or any other superannuation Fund.	Payment by way of gratuities, pensions or otherwise, in excess of the employer's contributions and interest thereon	The monetary value of any other benefits or perquisites.	Total of items (i) to (vii)
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
1967	Rs. 30,000.00	--	--		Rs. 2,965.68	Nil	Rs. 4,668.00****	Rs. 37,633.68**
1968	Rs. 29,951.61*	-	--	-	Rs. 3,917.50	Nil	Rs. 4,668.00****	Rs. 38,537.11***

* The decrease under the head is due to the fact that he has not been paid Rs. 48.39 on account of deputation allowance during the leave period from 16th to 30th March, 1968 (vide State Bank of India letter SBS No. 2422 of the 8th March, 1968)

** Excludes Rs. 4674.18 paid by the Bank to the State Bank of India for leave salary and Pension Fund and Provident Fund Contribution thereon.

*** Excludes Rs. 4,852.18 paid by the Bank to the State Bank of India for leave salary and Pension and Provident Fund Contributions thereon.

**** This represents the amount of rent paid for the General Manager's residence.

THE STATE BANK OF PATIALA

REPORT OF THE AUDITORS

TO THE STATE BANK OF INDIA

We, the undersigned Auditors of the State Bank of Patiala, appointed under sub-section (1) of section 41 of the State Bank of India (Subsidiary Banks) Act, 1959, do hereby report upon the Balance Sheet as at 31st December, 1968 and the accounts of the Bank for the year ended that date.

We have audited the foregoing Balance Sheet and the Profit and Loss Account and the accounts relating thereto of the Head Office and the returns submitted and certified by the Branch Managers, which returns have been incorporated in the above Balance Sheet and accounts and report

(i) that, in our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and is properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of our information and the explanations given to us and as shown by books of the Bank;

(ii) that, where we have called for any explanation or information, such explanation and information have been given to us and have been satisfactory;

(iii) that the transactions of the Bank which have come to our notice have been within the powers of the Bank;

(iv) that the returns received from the branches of the Bank have been found adequate for the purpose of our audit ;

(v) that the Profit and Loss Account shows a true balance of Profit for the period covered by such account ;

(vi) that, in our opinion, the Balance Sheet and the Profit and Loss Account are drawn up in conformity with the law; and

(vii) that, in our opinion, books of account have been kept by the Bank as required by Law.

Delhi,
Dated : 4th February, 1969/15th Magha, 1890 Saka

RAY & RAY
Auditors

SANTOKH SINGH ANAND
Chief Accountant

K. Y. GHARPURE
Dy. General Manager

K. SUBRAMANIAN
General Manager

V. T. DEHEJIA
Chairman

Directors: M. A. Chidambaram, K. S. Malhotra, Kushalpal Singh, Bhalindra Singh, R. K. Talwar, C. P. Saigal, Ram Narain, Kesho Ram Passey

RECORDS AND STATISTICS

Purposeful Management of Public Enterprises

IN THE memorandum circulated along with the Budget documents, the government has outlined the measures to be taken for improving the working and profitability of public sector undertakings. The memorandum is reproduced below :

The present investment in central government industrial and commercial enterprises over 80 in number is of the order of about Rs 3,500 crores. Out of this, investment in the 55 running concerns (including Hindustan Steel Ltd) accounts for nearly Rs 3,200 crores. During 1967-68, the last financial year, 31 of these enterprises showed a net profit of over Rs 48 crores. The other 24 enterprises, however, showed a net loss of Rs 83 crores, resulting therefore in an overall net loss of Rs 35 crores, after providing for depreciation (which forms part of the internal resources of the public enterprises), interest on loans from Government of India, the State Bank and other agencies and taxes.

The losses incurred were mainly those of Hindustan Steel Ltd and four engineering enterprises - Heavy Engineering Corporation, Bharat Heavy Electricals Ltd, Heavy Electricals (India) Ltd and Mining and Allied Machinery Corporation Ltd. Owing to lack of sufficient demand accentuated by the recent recessionary trend in the economy, the capacities which have been built up in these enterprises remain unutilised to an appreciable extent.

On the other hand, substantial profits have been earned by Indian Oil Corporation Ltd, Hindustan Aeronautics Ltd, Fertilizer Corporation of India Ltd, Oil and Natural Gas Commission, Bharat Electronics Ltd, as well as about 25 other public enterprises. Many enterprises have also declared dividends varying from five per cent to as high a figure as fifteen per cent.

In assessing the performance of public enterprises, no generalisation is, therefore, possible. It should also be remembered that the public enterprises, as a group, are not at the same stage of development. While some enterprises have just completed their construction work and have commenced production, others are operating for a number of years and have already broken even. Some others are still in the stage of construction and development. Most of the running concerns are also in the process of implementing substantial expansion schemes.

At the same time, it is recognised that every effort should be made to improve the working and profitability of these undertakings. An analysis of the problems which many of them face showed that these have to be tackled in two main directions: (*a*) fuller utilisation of existing capacity especially in the steel and engineering industries, and (*b*) improvement in managerial and operational efficiency.

MEASURES FOR FULLER UTILISATION OF CAPACITY

The industries in which the major portion of investment has been made are highly capital intensive, entailing long gestation periods, such as steel, heavy engineering, heavy electricals, heavy machine tools, petroleum, etc. The investment in Hindustan Steel alone, at the end of 1967-68, was over Rs 1,000 crores. Taking into account the investment in Bokaro Steel, the total investment in the steel sector was of the order of Rs 1,180 crores. The investments in other important sectors amounted to Rs 833 crores in engineering; Rs 350 crores in chemicals; Rs 378 crores in petroleum and Rs 273 crores in minerals and metals.

When these giant projects were set up, their capacities were based upon certain projections of demand, which, however, did not materialise, leading to the present problem of under-utilisation, particularly in case of steel and engineering sectors. It is to be hoped that with recovery in the economy, the position would improve. But the problem will still remain for some time, and meanwhile measures have been taken to bring about better utilisation of the capacities, which are broadly as follows : diversification of production; promotion of exports; and co-ordination with requirements of other public enterprises, etc.

Diversification

Diversification of production is being undertaken not only for manufacture of new products, with the addition of balancing capital equipment, as in the case of National Instruments Ltd, Instrumentation Ltd, Mining and Allied Machinery Corporation, etc. but also by utilisation of existing capacity for forgings, castings, gear cuttings and other machining jobs for which job orders are also being accepted. Some enterprises such as Hindustan Machine Tools Ltd have also taken steps to diversify their production by undertaking new lines of manufacture, keeping in view the demand conditions in the home market. As a result of a careful scrutiny, it has been possible also to achieve considerable savings in outlay by (*a*) modifying, (*b*) postponing, or (*c*) abandoning altogether, new investments and achieving the same production where required through existing capacity with minor modifications. Of the new investment proposals, where such savings have been possible, particular mention could be made of the Pumps and Compressors Project, the Agricultural Tractors Project, Wardha Foundry Forge Project, Hardwar Foundry Forge Project, Bhavnagar Machine Tool Project, the Hyderabad Second Cable Factory, etc.

Exports

In addition to diversification, a drive has been undertaken to secure export orders. During 1967-68, public enterprises have earned about Rs 48 crores in foreign exchange through exports of goods manufactured by them. In the case of Hindustan Steel Ltd alone, the total value of export on f.o.b. basis increased from Rs 9 crores in 1966-67 to Rs 31 crores in 1967-68, and their products were exported to more than 30 countries such as the USSR, the USA, the UK, Australia, Japan, etc. The company has exported during the first nine months of the current year up to the end of December, 1968, goods valued Rs 30·5 crores. Export of petroleum products by Indian Oil Corporation during 1967-68 was valued at Rs 3·83 crores; during the same period the value of telephone exchange equipment exported by Indian Telephone Industries Ltd was Rs 51 lakhs and that of machine tools and wrist watches exported by Hindustan Machine Tools Ltd Rs 44 lakhs.

Co-ordination

As an important measure for utilisation of idle capacity in the Heavy Engineering and Heavy Electricals Plants, it has been decided to set up two consortia of the concerned public sector units—one to undertake power projects and the other for industrial projects. The consortia will be in a position to take up power station jobs or the work of setting up of new projects, on a turn-key basis, both within the country and abroad. Apart from this, the purchase requirements of other public enterprises and government departments are also being co-ordinated wherever possible with a view to ensuring that the maximum supply of machinery and equipment is procured from these units, recent examples being Mining Equipment for Kiriburu Iron Ore Project, equipment for the Haldia Port, machinery requirements of the Bharat Heavy Plates and Vessels Ltd etc.

IMPROVEMENTS IN MANAGERIAL & OPERATIONAL EFFICIENCY

The government have recently taken a number of decisions to bring about improvements in the managerial and operational efficiency of public enter-

prises. These decisions are based, to a large extent, on the recommendations of the Administrative Reforms Commission in their Report on Public Sector Undertakings; on the recommendations made by the Committee on Public Undertakings in their Reports on Financial Management, Materials Management, etc.; as well as on the periodical reviews undertaken by government on the performance of these enterprises. The government's policy underlying these decisions may be broadly defined as follows : (1) It is recognised that in order to enable these undertakings to work with greater autonomy, there should be sufficient delegation of powers to the public enterprises; (2) Simultaneously, every effort should be made to assist the enterprises to secure suitable managerial talent; (3) In addition, measures have to be taken and guidelines laid down for improving management techniques in all its various aspects in these enterprises; (4) There should be an effective machinery for periodical review and appraisal of their performance so that defects may be put right as speedily as possible.

(1) Delegation of powers

The following enhanced powers have been delegated to the public enterprises relating to both financial and administrative matters.

Financial powers :—(*i*) The boards of directors of public enterprises are authorised to sanction capital expenditure without prior reference to government within specified limits on works and schemes which come within the approved objectives of the enterprises. The boards are also fully authorised to sanction all capital expenditure in cases where the detailed project reports have been approved by government and also to permit variations in the estimates of not more than ten per cent for any particular component part. This delegation also covers invitation to and acceptance of tenders relating to such works.

(*ii*) The government have accepted that it is not necessary for the public enterprises to submit their revenue budgets for prior approval except in cases where government is expected to make up the deficit, if any, in the budget. The revenue budgets, as approved by the boards of directors of public enterprises have to be sent to government only for information of production targets, profitability etc.

(*iii*) It has further been decided that public enterprises may approach financial institutions such as the Industrial Finance Corporation, the Industrial Development Bank of India and the Unit Trust of India for financial assistance for their expansion programmes, provided they have sufficient internal resources and have declared dividends and provided they do not come to government for financing their future expansion programmes.

Administrative powers :—(*i*) Till recently appointments to the top posts of managing directors, general managers, financial advisers, etc. were to be made by government. In respect of others also where the pay exceeded Rs 2,250 p.m. (or in some cases Rs 2,500 p.m.), many enterprises had to obtain the approval of government both for creation of posts and for making appointments. But henceforth the public enterprises will be competent both to create posts, and to make appointments thereto, irrespective of pay for all posts below the board level (excluding only the general managers of constituent units) without any reference to government. The appointments of financial advisers will also be made by the boards. Only the chairmen/members of the boards of directors and the general managers of constituent units will in future be appointed by government.

(*ii*) As regards service conditions of employees of public enterprises, it has been recognised that uniformity is not possible in the matter of pay and allowances although rationalisation wherever possible, should be effected. The Bureau of Public Enterprises will act as a clearing house of information relating to service conditions, including pay scales and allowances, etc. in force in the different public enterprises for making the same available to other public enterprises and administrative ministries. Guidelines are also issued from time to time on important matters in these areas. Thus, in September 1968, guidelines were issued covering dearness allowance, conveyance allowance, travelling allowance, etc. taking into account the special features of these industrial and commercial enterprises. Details of a model gratuity scheme have also been circulated to all public enterprises in order to enable them to adopt the same for their employees.

(*iii*) The government have also accepted, pursuant to the recommendations of the Administrative Reforms Commission, that there should be a suitable decentralisation of powers not only from government to the boards of directors of public enterprises but also within the various levels of management of the enterprises themselves. For this purpose, the enterprises have been asked to conduct a suitable review of the internal delegation of existing powers.

(*iv*) It has also been decided that where government considers it necessary to issue a directive to a public enterprise asking it to act in a manner different from that dictated by the economic considerations, this should be in writing and this fact should specifically find a mention in the annual report of the concerned public enterprises.

(2) Managerial Personnel

Chairman-cum-managing director :— It has been decided that, as a norma rule, there should be a full-time chairman-*cum*-managing director for a public enterprise. Where, however, the chairman might be only part-time, there should be a full-time managing director, but even in such cases the chairman should take on full responsibilities and should be invested with the necessary authority. The posts of many chief executives in public enterprises such as National Mineral Development Corporation Ltd, National Coal Development Corporation Ltd, Shipping Corporation of India Ltd, have already been converted into full-time chairman-*cum*-managing directors of the respective enterprises.

Board of Directors :—In the larger units full-time Functional Directors should be appointed, who will be the executive heads of their departments. Posts of functional directors for departments such as finance, planning production, etc. have already been created in Hindustan Steel Ltd, Heavy Engineering Corporation Ltd, State Trading Corporation of India Ltd, National Coal Development Corporation Ltd etc.

The government have also decided that, as a rule, no officer of a ministry should be made chairman of a public undertaking, nor should the secretary of a ministry be included in its board of management. This restriction about secretaries not being included in the boards of management would apply, however, only to industrial and commercial undertakings.

Tenure and Recruitment :—The tenure of appointment of full-time chairman and functional directors should be normally for a minimum period of 5 years, subject to their performance being satisfactory. This will ensure the necessary continuity in top management posts.

Measures for securing top management personnel for public enterprises from various possible sources have already been taken up. Top management posts in public enterprises (full-time chairman-*cum*-managing director, managing director, functional directors, and general managers) have been classified on the basis of responsibility involved into four schedules with remuneration ranging from Rs 2,000 p.m. to Rs 4,000 p.m. Panels of names have been drawn up for all these categories.

Selection is made to the panels from government services, from public enterprises as also from private sector.

A system of periodical reporting of anticipated vacancies in the top management posts has also now been introduced so that timely action could

be taken to locate suitable incumbents, to ensure that the key management posts do not remain vacant for long.

Policy regarding deputation of civil servants to public enterprises :—As a measure in the direction of developing a homogenous managerial class in the enterprises and reducing the dependence on the deputationists from the various cadres of the permanent civil services in manning posts in them, it has been decided that government officers deputed to public enterprises should be asked to exercise an option between the two alternatives of resignation from government service and permanent absorption in the concerned public enterprise (or) reversion back to the parent cadre. Exceptions will be allowed only in the case of defence personnel on their appointment to defence production undertakings. The option is to be exercised within one year or three years depending upon the level of the post held by the officer in the enterprise.

Managerial posts at intermediate levels :—Powers of appointment to managerial posts below top level come within the purview of the boards of directors of public enterprises. The Administrative Reforms Commission in their report on Public Sector Undertakings had recommended that common cadres for managerial personnel for posts carrying the pay of Rs 1,300 and above should be organised by each Sector Corporation, who should have the authority of making transfers within the Corporation in consultation with the units concerned. Pursuant to this recommendation, it has been accepted that inter-changes of managerial personnel may, to the extent possible, be effected between public enterprises with the consent of the management of the concerned enterprises. In order to assist public enterprises to secure suitable managerial personnel for posts at intermediate levels *i.e.*, the posts of heads as well as deputy heads of the departments in general management, finance,accounts, personnel, manpower planning, industrial engineering as well as in operating departments like production, maintenance, works study, purchase and stores, etc., the necessary machinery has been set up in the Bureau of Public Enterprises for spotting, pooling and harnessing managerial talents from various sources, *viz*. public enterprises, government services and private sector industries.

Management training :- The need for continuous training at the induction stage followed by refresher courses for managers of public enterprises at various levels cannot be over-emphasised. The government have accepted the recommendation of the Administrative Reforms Commission that the survey of additional requirements for managerial and technical manpower for the fourth and fifth five year Plan periods should be further examined by a body of experts. The Bureau of Public Enterprises has also undertaken in collaboration with the two Institutes of Management at Calcutta and Ahmedabad, Administrative Staff College of India, National Productivity Council and other institutions in the country, measures for ensuring coordination and arranging for the training of managerial personnel from public enterprises in these institutions. During the period August 1967 to September 1968, for example, the various institutes conducted 59 training courses and in all nearly 520 officers from the public enterprises pariticipated in these programmes. With the help of the Administrative Staff College an on-the-spot-survey of the management training needs of individual public enterprises for the next five years has also been undertaken to identify the specific areas and needs of such training, in consultation with the heads of the enterprises concerned

(3) Measures for improving management techniques

Project preparation : A study of the performance of the public enterprises indicates that in a number of projects, inadequate attention at the planning stage has led to over-estimation of demands, prolongation of the period of construction, increase in capital cost estimates and delays in the attainment of the production targets. In order to remedy these deficiencies, the attention of all concerned has been drawn to the requirement that a feasibility study should be made for all projects on the lines indicated in a manual specially prepared for this purpose by the Planning Commission. This Manual requires that the feasibility studies should incorporate information on the pattern of demand, competitive position, technical data, location of the projects, capital cost estimates, foreign exchange requirements, operating cost, profitability and return on investment. An analysis of the feasibility reports recently prepared in respect of some projects indicates that these are now prepared by and large on these lines. For all projects involving sizeable investment, it has also been prescribed that a complete Master Plan of construction should be drawn up with the help of Net-work Techniques *e.g.* PERT and CPM.

Economy in construction :—Civil construction costs account for a substantial part of the total capital investment in the public enterprises. Including the cost of township, this varies from 30 per cent to 40 per cent of the total investment in a project. Specific measures have been taken to effect reduction in cost of civil works.

(i) Standards of housing for different pay ranges, specifications to be adopted, scale of amenities to be provided in the quarters and alternative designs for various types of residential quarters have been issued keeping in view functional requirements and comfort consistent with economy. Public enterprises have also been instructed to provide amenities in the townships such as schools, hospitals, community centres, etc., as well as utility services in accordance with certain prescribed standards and to phase the construction of such facilities to meet only immediate needs. In areas where more than one undertaking is located, the desirability of providing common community facilities and services has also been impressed upon the public enterprises.

(ii) Guidelines have also been issued on : (*a*) use of new building materials such as high strength deformed bars now being produced in this country, which would lead to substantial reduction in the cost of reinforced concrete works; (*b*) procedure for detailed soil investigation so as to avoid change of site at any later date; (*c*) planning of land requirements for lay out in compact areas, so as to save on outlays on services, internal transport, etc.; and (*d*) public enterprises have been asked to keep rolls of contractors, based upon their performance, which could be of use *inter se* and guidelines issued for the work-load of various categories of construction staff, and for supervision charges during construction, etc.

(*iii*) Assistance is being rendered to the enterprises in the disposal of their surplus construction equipment, materials and stores by bringing the existence of such surpluses to the notice of others. In the deployment of their surplus construction staff to other undertakings, necessary assistance is also being provided.

(*iv*) In regard to the administration of townships, it has been decided that the township and connected facilities should form a separate unit of administration to be managed by a committee consisting of the officers concerned of the public enterprise and a few representatives elected by the staff and workers living in the township. Moreover, in view of the fact that capital for construction of the township is provided by the central government, the provisions of the subsidy as admissible under the subsidised housing scheme should be made at the very beginning.

Reporting Systems :—(*i*) Any purposeful delegation of powers from the government to the enterprises as well as within the management of the enterprises themselves should be accompanied by rationalisation of the management information system. In this context it has been accepted that the annual reports to be drawn up by the public enterprises for submission to the Parliament and government should bring out clearly all essential aspects

relating to their working with special reference to (i) production, capacities and targets, (ii) levels of production achieved, and (iii) performance from export angle and foreign exchange earnings. Special problems affecting their performance and the reasons therefor should be incorporated in these reports.

(ii) Within each enterprise also, the reporting system should be rationalised. The timely placement of essential data before the management about the performance of an enterprise is a necessary requisite for efficient management and facilitates sound business decisions. In this connection enterprises have been asked to prepare quarterly profit and loss accounts and cost statements and place the same before the management to enable them to review the performance of the enterprise. To facilitate the preparation of such quarterly reports government have drawn up suitable proformae which *inter alia* cover the information on the following aspects *e.g.*, (*a*) production and sales; (*b*) resources and their utilisation; (*c*) cash flow statement; (*d*) capital expenditure; (*e*) profit and loss position; (*f*) expenditure on overheads and (*g*) man-power deployment.

Financial Management :—(*i*) One of the basic essential requirements of sound financial management is proper and up to date maintenance of financial and cost accounts and especially the use of Standard Costing system which is an essential management tool for the purposes of cost control providing necessary data against which the actual performance can be compared and variations analysed. The enterprises have been asked to develop also, wherever possible, an integrated system of cost and financial accounts so as to avoid frequent reconciliation of figures between financial and cost accounts. Nearly 40 enterprises have already developed proper costing systems and others are in the process of adopting this. Over 30 enterprises have adopted the integrated system of cost-*cum*-financial accounts. The Bureau of Public Enterprises is rendering necessary assistance for developing costing systems in the various units.

(*ii*) A comprehensive budgetary system is also an integral part of sound financial management. It will help the management to review the actual performance as compared with the target and estimates. In case of industrial and commercial undertakings, it has been laid down that a comprehensive budgetary system should *inter alia* include (*a*) capital budget—to cover the expenditure to be incurred on the approved schemes; (*b*) revenue budget —to prepare the plan of operation for each year showing profit and loss likely to be made; and (*c*) cash flow statement showing the inflow and outflow of cash. Enterprises have been asked to prepare budget manuals containing the procedure and forms for the preparation of the budget, time schedule, channels of communications, etc. About 50 enterprises have now laid down the procedures and forms for Budgets and a number of enterprises have prepared their budget manuals.

(*iii*) Public Enterprises have been required to introduce performance budgets or business-type budgets and also undertake monthly reviews of sale, production and yield figures at each plant and unit.

(*iv*) It is necessary to build up an effective system of internal audit to review the soundness and adequacy of the existing systems, procedures and controls in management and suggest suitable improvements, wherever necessary. As the size of the organisation grows the need for an effective internal audit department becomes all the more necessary. Nearly 50 enterprises have already developed internal audit systems while others which are under construction, are in the process of establishing this.

(*v*) The Board of Directors of the enterprises have been advised to review their working capital requirements periodically and they have been advised to secure cash credit facilities from the State Bank of India on the security of their current assets. In cases where the enterprises are unable to secure their requirements of working capital on the security of their own assets from the bank, the question of providing a government guarantee for this purpose will be considered.

(*vi*) In regard to depreciation policy and development rebate, detailed instructions have been issued to public enterprises. They have been instructed that the straight line method may be adopted for determining the amount of annual depreciation charges and the same should be fully adjusted in the accounts of each year.

Pricing policies :—Guidelines have been recently laid down on the pricing policies to be followed by public enterprises.

(*i*) Wherever there are statutory regulations or voluntary arrangements of a binding type, introduced in the larger interests of the national economy, the enterprises would have to conform to such regulations.

(*ii*) A number of enterprises produce goods and services in open competition with other indigenous producers in the private sector, and in respect of their products, the normal market forces of demand and supply will operate and their products will be governed by and large by the prices prevailing in the market.

(*iii*) In the case of enterprises which operate under monopolistic or semi-monopolistic conditions it will be necessary, however, to have a prescribed procedure. The guidelines lay down that the pricing of their products should be within the landed cost of comparable imported goods; such landed cost would be the ceiling and within this ceiling it would be open to the parties concerned to negotiate and fix prices at suitable levels. If, however, in assessing the landed cost there are reasons to believe that the price of the imported

goods are artificially low or in other exceptional circumstances it may be necessary to have the prices higher than the landed cost, the matter should be referred to the administrative ministry concerned for examination in depth in consultation with the Ministry of Finance, including the Bureau of Public Enterprises and the Cost Accounts Organisation.

In the present context when many of the public enterprises have ceased to enjoy sheltered market conditions for their products there is particular need for strengthening their Commercial and Marketing Organisations. Public enterprises have been, therefore, advised to review and strengthen their organisations for marketing so that they are able to promote the sales of their products both at home as well as abroad.

Inventory control:—The total value of inventories held by the public enterprises in regular operations as at the end of March 1968 was as high as Rs 873 crores, and every effort has to be made to effect savings. A series of instructions have already been issued on the introduction of modern and scientific techniques of materials management. In addition, a detailed study of the levels of inventories and the system of inventory planning and control in selected public enterprises was undertaken by a special committee set up in the bureau of Public Enterprises, consisting of representatives both from the public and the private sector. As a result of this study, the level of inventories in the six units so far examined has been scaled down from Rs 146 crores to about Rs 70 crores. This study is being continued so as to cover all the major enterprises.

Labour relations:—(*i*) It has been decided that there will be no objection in principle to have a representative of the workers on the boards of management. He should, however, be one actually working in the enterprise and moreover such representation should apply only in the case of industrial units and not in the case of financial and commercial enterprises.

(*ii*) The government have also accepted the recommendation of the Administrative Reforms Commission that every enterprise should effectively discharge all the statutory obligations imposed on the employer by the labour laws. The Department of Labour and Employment has already undertaken studies of public enterprises with a view to preparing a periodical review of the working of labour laws and industrial relations machinery in each enterprise. It has also been accepted that there should be professionally qualified and experienced labour officers at sufficiently senior levels in the personnel departments of public enterprises.

(*iii*) Public Enterprises have also been asked to adopt appropriate work standards and other control techniques from the very beginning to ensure that surplus labour is not recruited by them. As regards over-staffing which has already taken place in some of the public enterprises, the following measures have also been taken : -

(*a*) Enterprises are being asked not to go in for any further recruitment; all normal vacancies to be taken care of by the existing surplus staff, though there could be exception for skilled categories etc., which cannot be filled except by additional recruitment; (*b*) special training programmes have been taken up so that surplus labour (such as used in construction work) can be employed in vacancies for skilled and semi-skilled staff; (*c*) the use of Public Sector Construction Corporations in a larger measure than hitherto; and (*d*) the feasibility of framing scheme for voluntary retirement benefits as has been done already by some enterprises such as Neyveli Lignite Corporation Ltd, National Mineral Development Corporation Ltd, etc.

(4) Audit and Appraisal

It has already been accepted that there should be effective preriodical reviews and appraisals of the performance of public enterprises.

(*i*) In the first instance this is being done by a proper system of prescribed returns and reports from the enterprises to the ministeries etc., in respect of their activities. The administrative ministries have also appointed, wherever necessary, special committees such as the Pande Committee on Durgapur Steel Plant, Tandon Committee on State Trading Corporation etc., for going into the working of the concerned enterprises and recommend measures for improvement in performance.

(*ii*) Further, the Bureau of Public Enterprises, in consultation with the administrative ministries has undertaken periodical performance appraisals. These appraisals seek to review the performance of the enterprises against the background of the rated and installed production capacity to ascertain reasons for shortfall in production, if any, and focus attention on factors that militate against efficiency. Remedial actions, wherever necessary, are also suggested. Such technical-*cum*-financial reviews have been so far prepared in respect of ten enterprises. The reviews prepared by the Bureau are brought before government at appropriate levels and directions are given indicating the lines on which further actions have to be taken.

Appraisal by Audit Boards:—Pursuant to the recommendations of the Administrative Reforms Commission, it has been decided to set up audit boards for specific sectors of public enterprises. In effect there will be one audit board with three permanent members, and two part-time members who could be specifically selected for different sectors of public enterprises, the three permanent members to be appointed by the Comptroller and Auditor General. The present audit by the statutory auditors would also continue under the aegis of the audit board. The two part-time members will be appointed in consultation and with concurrence of the Comptroller and Auditor General by the administrative ministry responsible for the enterprise under review by the audit board. The audit boards will be under the jurisdiction and control of the Comptroller and Auditor General and will be part of the Comptroller and Auditor General's organisation. The arrangements under the new system will not detract from the Comptroller and Auditor General's right to undertake any special or supplementary audit if he considers it necessary.

Both the regularity and the propriety-*cum*-efficiency audit of public enterprises will be conducted through the instrumentality of Audit Boards. The Comptroller and Auditor General even now gives directives and lays down guidelines on the conduct of both such audits. The powers of the Comptroller and Auditor General in this respect will continue even after the audit boards are set up and, in the case of the propriety audit, he could, if necessary, use his own staff in co-ordination with the boards.

These audit boards would also conduct, in addition, periodical and comprehensive appraisals of public sector undertakings. The comments of the audit boards will be incorporated in the Audit Report (Commercial) placed before Parliament.

Conclusion

It is hoped that the above measures directed towards better planning, improved management and more purposeful guidance of public enterprises would contribute significantly to the improvement of their performance and profitability in the coming years. This, however, has to be a continuous process and the need for remedying deficiencies, wherever they exist, and for introducing new measures to improve managerial and operational efficiency will have to engage the constant attention of the managements, and the government.

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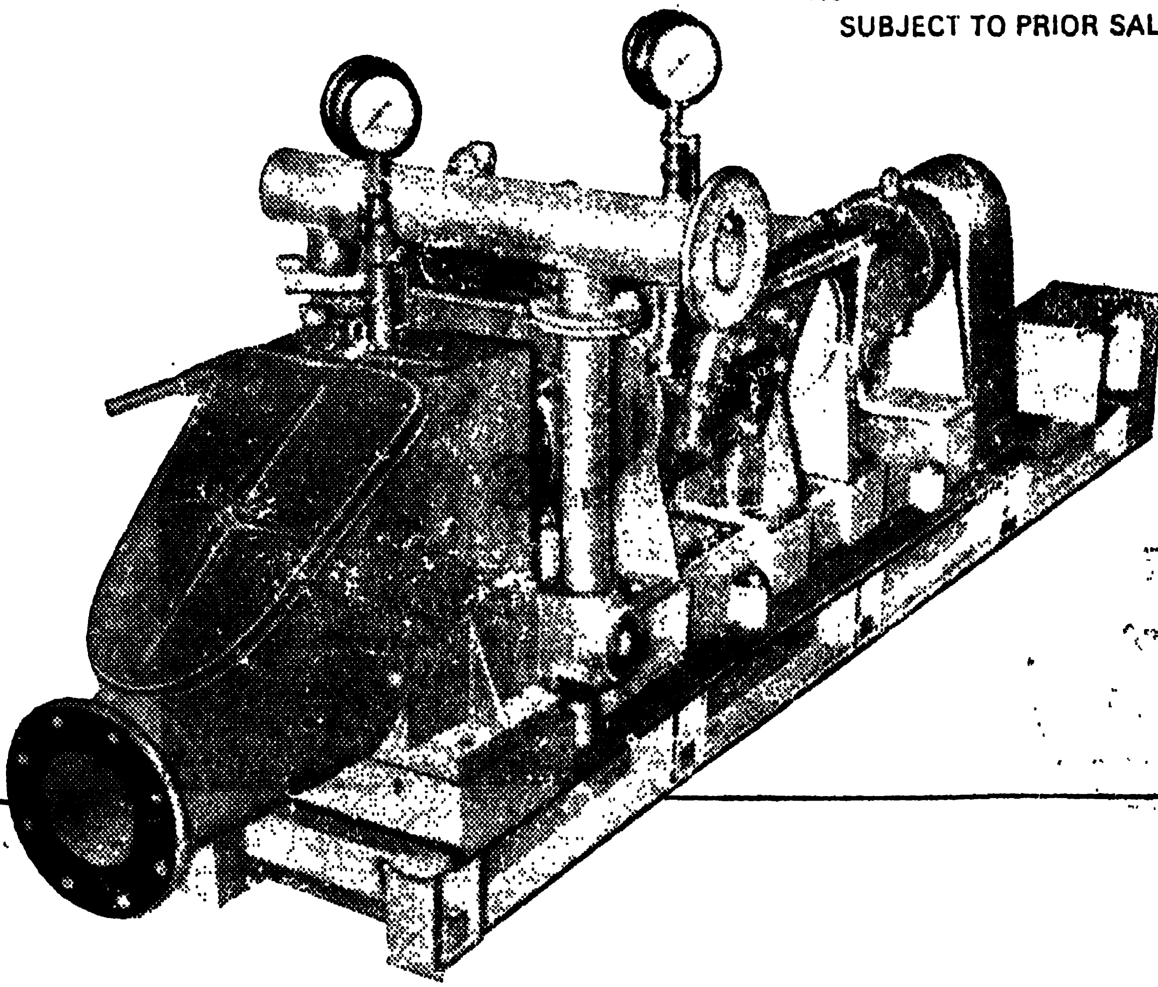

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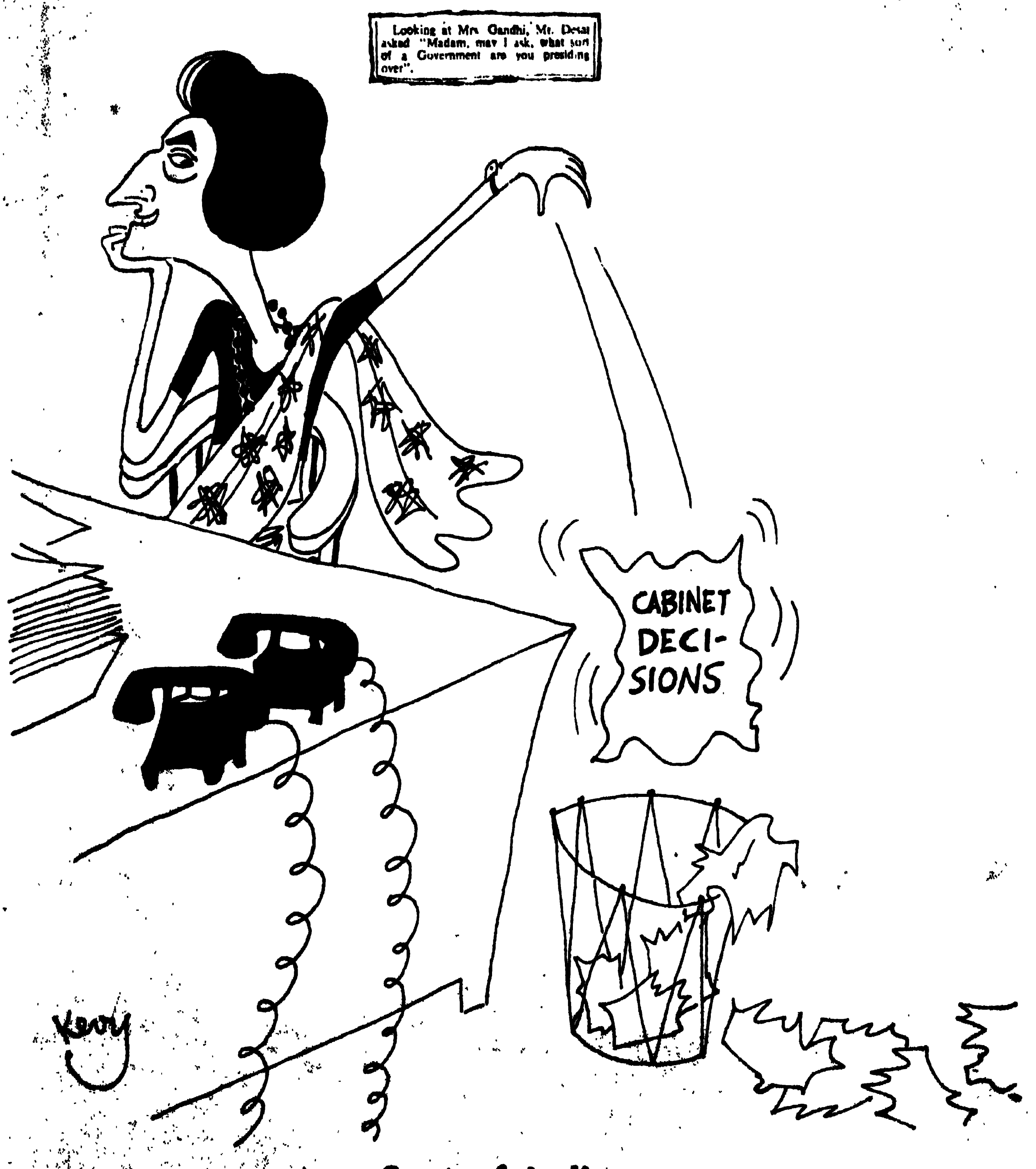

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This Petulant Prime Minister

BETWEEN THE specific pleas or suggestions in the address of the outgoing President of the Federation of Indian Chambers of Commerce and Industry at the inaugural meeting of the 42nd session of the Federation held in New Delhi over the weekend and the reactions to them expressed by the Prime Minister in her speech on the same occasion, there was more common ground than Mrs Indira Gandhi, thanks to her peculiar political orientation, was prepared to concede publicly When Mr G. M. Modi entered a caveat against any further extension of the area of government controls, he was only protesting against the departures, actual or threatened, from the prevailing trends in the government's own thinking.

The Prime Minister admitted as much when, after making a predictable reference to government controls as an alternative to voluntary discipline in industry and commerce, she reiterated the known official decision that, in the fourth Plan, a much higher degree of freedom and flexibility than was allowed before would be permitted to the private sector in selecting or pursuing schemes of industrial investment. The Prime Minister also confirmed that licensing policy would be further liberalised making it possible for new industrial projects, not involving any expenditure of foreign exchange, to be undertaken free of the formalities of licensing. Given this attitude on the part of the government, Mr Modi was merely suggesting that it should be true to its own professions when he objected to some ministry or the other or somebody or the other in the government casually playing with ideas of adding more controls to those already existing.

Similarly, on the issue of delays in decision-making or administration, the Prime Minister necessarily had to agree with Mr Modi's austerely factual statement that these delays were serious, that they were extremely undesirable and that they had to be eliminated. It is true, however, that although Mrs Gandhi yielded on this point, she did not do so with good grace, but had to appeal to some mysterious, if not mythical considerations of public policy or social interest to justify the government's inability and unwillingness to make up its mind one way or the other even on industrial projects of basic importance and grave urgency.

The Prime Minister ignored the points made in the FICCI President's address in favour of a liberalisation of fiscal policies so as to promote savings, investment and industrial development. This could be because she chose to regard this part of Mr Modi's address as falling within the category of "ventilation of complaints", to which she had expressed an allergy at the very outset of her speech. Mrs Gandhi, however, sought to compensate for this omission by delivering a platitudinous sermon on the convenient political theme of "affluence in the midst of poverty". This, again, was consistent with the image of herself which she and those around her have been sedulously promoting for her and their political purposes.

Believing or having been led to believe that her political salvation or perhaps even her political survival depends on constantly presenting herself as a leader of government who is increasingly left of centre, Mrs Gandhi, naturally could not let go the advantages of the occasion to castigate the anti-social anomaly of pockets of affluence existing in a country of mass poverty. She was of course less than honest or fair when she implied or insinuated that the business community was indifferent to the problem of poverty or that it was profiting from the persistence of this problem. If anything, it is the politicians who exploit

the issue of poverty for furthering their own professional interests since it is so much more easy to do this than to build or strengthen their position by providing good government to the people. The manufacturer and the merchant, on the contrary, can only gain from a growing ability of more and more people to buy and consume more and more goods. Today, more than ever before, there is need for the leaders in government and political life to eschew cheap politics and offer honest response to the creative and constructive forces and institutions in the community. It is regrettable, but not surprising that this higher statesmanship so obstinately eludes Mrs Indira Gandhi. She spoke rightly of the decline in greatness since the days of the giants of our freedom struggle. Nowhere has this devaluation of character or ability proceeded farther than among the politicians in power.

Excise & Export Duties in the Budget

THE DEPUTY Prime Minister and Minister for Finance, Mr Morarji Desai, has been criticised for extending central excise taxation to fertilizers and power-driven pumps. Fertilizers have been subjected to an *ad valorem* duty of 10 per cent. The levy proposed on the power-driven pumps is 20 per cent *ad valorem*. These imposts have been seriously objected to on the ground that they will retard the modernisation of our agriculture and come in the way of the country becoming self-sufficient in foodgrains and several other essential agricultural raw materials.

There is no denying the fact that the recent upswing in agricultural production has been assisted to a great extent by the increasing application of fertilizers and the extension of irrigation facilities in which the role of power-driven pumps has been of no small importance. But is the feeling that the proposed excise levies on fertilizers and power-driven pumps will discourage our agriculturists from going in for these aids to efficient farming warranted at all?

So far as fertilizers are concerned, the sharp increase in their prices following the devaluation of the rupee in June 1966, and the withdrawal of subsidy in most states subsequently, had apparently not hindered their popularisation. Between February 1, 1966, and April 19, 1968, the pool price of urea, whether sold in bulk for use in plantations or by cultivators, for instance, went up from Rs 680 to Rs 860 per tonne. The price of ammonium sulphate went up during this period from Rs 405 to Rs 502 per tonne. Despite the sharp increase in prices, the distribution of urea rose from about 301,900 tonnes in 1965-66 to nearly 596,900 tonnes in 1966-67 and to as much as 1.03 million tonnes in 1967-68. The offtake of ammonium sulphate went up from 1.27 million tonnes in 1965-66 to 1.58 million tonnes in 1966-67. In 1967-68, it fell to 1.23 million tonnes, but this perhaps was due to some agriculturists favouring other nitrogenous fertilizers. In terms of the plant nutrient value, the distribution of nitrogenous fertilizers, all types, went up from 582,588 tonnes N in 1965-66 to 830,171 tonnes N in 1966-67 and to nearly 1.34 million tonnes N in 1967-68. The offtake of phosphatic fertilizers increased from 134,075 tonnes P_2O_5 in 1965-66 to 274,601 tonnes in 1966-67 and to nearly 438,168 tonnes in 1967-68. The distribution of potassic fertilizers went up from 89,631 tonnes K_2O in 1965-66 to 133,666 tonnes in 1966-67 and to nearly 205,750 tonnes in 1967-68.

This should make it abundantly clear that the price of fertilizers is not the only consideration that guides the response of agriculturists to their use. If higher prices still leave a margin of profit to the agriculturist, he will surely go in for this input. The proposed excise duty on fertilizers, which will raise the present price of urea by about eight rupees per bag and that of ammonium sulphate by about five rupees per bag, can be easily absorbed by agriculturists if they are assured that the prices of farm products will not be allowed to fall significantly.

Another important fact that is to be noted in this connection is that, towards the end of the last calendar year, the prices of indigenous fertilizers were reduced by manufacturers by about 3.5 per cent. So actually the proposed excise levy will push up the prices of these fertilizers by about 6.5 per cent over the levels obtaining a year ago. This is insignificant as compared to the sharp rise in prices after the devaluation of the rupee and the withdrawal of subsidy in most states. Further cuts in prices by indigenous manufactureres, as their production goes up resulting in economies of scale, are also not ruled out. As regards imported fertilizers, the fall in prices over the past three years has been nearly 20 per cent in most cases. Provided adequate promotional effort continues, there is no danger of the consumption of fertilizers being adversely affected by the proposed excise duty.

Fears that the demand for power-driven pumps would go down as a result of the proposed duty perhaps, however, are not wholly unjustified. Untill now there was no excise duty on pumps; it was levied only on petrol/kerosene engines and electric motors. The most important prime-mover particularly for portable pumps, i.e., diesel engines up to 10 h.p. was not subjected to any excise levy. Further, until recently, practically every state was allowing a subsidy on pumps for agricultural purposes on rates varying from 20 to 50 per cent. Taking into consideration the withdrawal of this subsidy and the incidence of the proposed excise duty, even if drawback is allowed on the excise on prime-movers wherever it was applicable hitherto, the increase in the cost of installing pumpsets may be anything

between 40 and 70 per cent. The more affluent among the peasantry may be able to afford this additional expenditure, but how far the smaller farmers will be able to do so is a moot point.

Criticism being directed primarily against the proposed excise levies on fertilizers and power-driven pumps, the implications of the increase in the tax burden on three petroleum products, namely motor spirit, superior kerosene and lubricating oils, and two other commodities—free-sale sugar and jute manufactures—have escaped the attention of most critics. The excise duty on superior kerosene has been raised from Rs 165.25 to Rs 205.25 per kilolitre, primarily with a view to checking adulteration of high-speed diesel (HSD) oil with superior kerosene by commercial transporters because of the comparative cheapness of the latter. The rationale behind the seven paise per litre increase in the excise duty on motor spirit presumably is to curtail the demand for this product so that the availability of naphtha is increased to meet the growing requirements of this important feedstock of the fertilizer industry. Lubricating oils have been subjected to 12.5 per cent higher import duty so as to bring this levy at par with the levy on machinery and also to give a slight edge to the indigenous product over foreign supplies. The increase in the burden of excise duty on free-sale sugar—estimated between 35 and 40 paise per kg—results from the changeover of the system of levying this duty from specific to *ad valorem* basis. The excise duties on hessian and other jute manufactures have been raised by Rs 100 per tonne so as to compensate for part of the loss resulting from the scaling down or abolition of export duties on some jute manufactures.

So far as petroleum products are concerned, the increase in the tax burden on them is bound to be reflected in higher transportation costs. The higher prices of motor spirit will result in demand for an upward revision in passenger fares by city transporters. Although the tax on HSD, which is the primary fuel for commercial transport, has not been stepped up, the attempts at stopping adulteration of superior kerosene with HSD will surely raise the fuel bill of commercial transporters. The increase in the burden of tax on lubricating oils will not only affect adversely transportation costs but also production costs in industry as well as in the mechanised agricultural sector.

It needs to be appreciated that the successive increase in the tax burden on the road transport industry since 1956 has contributed to no small extent to the accentuation of the inflationary tendencies in the economy. In early 1956, taxation formed about 50 per cent of the consumer price of motor spirit (Bombay) and nearly 21 per cent that of HSD. By 1965, the tax content in the two consumer prices had gone up to 80.5 and 79.8 per cent respectively. Before the budget it was 77.5 and 76.5 per cent. But this decline in the tax burden was due to the fact that the production costs of motor spirit and HSD, as of other petroleum products, rose sharply following the devaluation of the rupee. The tax on petroleum products in our country is about the highest in the world. There was a case for the scaling down of this tax burden in the interest of bringing down the price level. The additional taxation, therefore, can hardly be justified. An incidental result of the stepping up of the excise duty on superior kerosene has been the increase in the fuel bill of the Indian Airlines by nearly Rs 70 lakhs. The hope that the IAC should start showing profits from this year may, therefore, not materialise unless it is allowed to pass on the increased fuel costs to the consumers in the shape of higher fare and freight charges.

The increase in the excise burden on jute manufactures similarly is bound to have an adverse effect on the price level, for packaging costs will go up. But a more serious objection to this upward revision is on account of the likely repercussions it will have on the production costs of industry. If domestic demand suffers as a result of the increased tax burden and this is not counterbalanced by a corresponding growth in exports, the scale of production should shrink, leading to higher production costs. The enhancement of the excise duty on free-sale sugar may go against the interest of cane-growers. The high free-sale prices of this commodity have begun provoking consumer resistance. If the free-sale prices cannot be increased further, the industry will have to shoulder a part of the additional burden. It may not therefore be in a position to pay the high prices for cane supplies which the central government is virtually compelling it to pay at present.

If the implications of the increases in excise levies on petroleum products, jute goods and free-sale sugar have escaped the notice of many a critic, the incentives provided by the Finance Minister for exports of jute goods and tea have been exaggerated. Thanks to the tardy pace of governmental action, we have already lost to Pakistan all exports of sacking cloth to the non-communist world. About five years ago, our sacking exports were of the order of 400,000 tonnes per annum. Two years later, they dropped to about 200,000 tonnes. In 1968, we exported just about 84,000 tonnes of sacking. During the current calendar year, these exports are not expected to exceed 25,000 tonnes. These will be confined to the rupee payment countries: no exports are likely to the non-communist world despite the reduction in the export duty from Rs 250 to Rs 150 per tonne. The price differential on sacking enjoyed by Pakistan is said to be so large that even a subsidy of nearly Rs 500 per tonne would not help in recapturing our export trade in this line. As against this, the export duty has been scaled down by just Rs 100 per tonne.

What has been happening to sacking exports may soon be the lot of the export trade in hessian and carpet backing as well. The industry had argued not only for the abolition of the export duty on hessian, but also a cash subsidy of Rs 200 per tonne in view of the

difference of nearly Rs 700 per tonne in the prices of our hessian vis-a-vis the prices of our main competitor, Pakistan. In regard to carpet backing, reduction in export duty had been demanded by the industry in a phased manner. Both these expectations have been belied. While the export duty on hessian has been reduced from Rs 500 to Rs 200 per tonne, no relief has been granted in the levy on exports of carpet backing. The competition from Pakistan is growing fast. The threat from synthetic substitutes is also becoming acute.

As against Pakistan's jute goods production till lately being nearly 50 per cent hessian and carpet backing, it is expected to be about 70 per cent hessian and carpet backing in the next few months. Pakistan is currently producing at the rate of 35,000 tonnes of jute goods a month, of which 30,000 tonnes are exported. By 1972, Pakistan's monthly exports are expected to grow to 50,000 tonnes. By 1975, they may reach the level of 70,000 tonnes a month. As against this we are producing currently just about 70,000 tonnes of jute goods per month. Even if we go back to the level of output in 1965 of nearly 1.4 million tonnes, Pakistan's production will compare quite favourably with ours. The resulting cmpetitoin to our jute goods exports can well be imagined. The incentives required for our jute goods exports should, therefore, be designed taking full cognizance of this fact.

The incentive provided for tea exports similarly considerably falls short of what is warranted. Our main competitors in the tea market today are the east African countries where the tax burden is much lighter than in our country. The industry has been pleading for the abolition of the export duty and reduction in the excise duty on tea. As against this demand, the concession on loose tea amounts to about 85 paise per kg. Nearly 66 per cent of the tax burden on tea exports still remains. It is true that, in the interest of maintaining the unit value of tea exports at a reasonable level, some tax burden will have to be there on these exports. But will it not be desirable to abolish the export duty altogether and reduce the drawback of excise duty? On consumer packs, which bring in higher exchange earnings, the case for the abolition of export duty is all the more strong.

Raw Jute: Who Gains from High Prices ?

THE SLOW progress towards self-sufficiency in raw jute in our country has been due not so much to adverse weather but the want of energetic and systematic efforts. This was clearly revealed during the fourth meeting of the Indian Jute Development Council held in Calcutta on March 1, 1969. Mr Dinesh Kumar Singh, the council's chairman, said that the "weather has been unnecessarily emphasised for this year's fall in production". He had estimated that even with congenial weather, the area under jute would not have gone above 1.7 million acres against the last year's 2.2 million acres because of the "unduly low" prices prevailing in the peak marketing season. Bad weather reduced the area further to roughly 1.35 million acres. He suggested that "insincerity of purpose" and defects in policy were mainly responsible for not providing minimum price to jute growers, and warned that fluctuations in prices and production should not be allowed to recur.

Though the price of raw jute ruled quite high in the 1968-69 season, the grower did not seem to have fully benefited from this trend. On July 1, 1968, Assam White Bottom was quoted at Rs 52 per maund as compared to Rs 46.10 per maund at the opening of the preceding season. The attempts to stabilise prices by fixing ceilings on the fibre-holding of mills, by arranging imports, by checking speculation and by curbing the domestic demand for jute goods did not, however, have much success. Towards the end of December 1968, the weekly average price of raw jute at Calcutta soared to Rs 76, compared to Rs 38.58 in the similar period of the previous year. According to official estimates, while the rise in the prices of Assam Bottom at Calcutta over the last year was 41.83 per cent, the increase at the growers' level was 40.52 per cent. In the case of Northern White Bottom the percentage rise in price in Calcutta was 73.10 compared to only 37.49 per cent at the grower's level in October. The problem of ensuring a fair return to the grower and protecting his

ESTIMATED SUPPLY-DISTRIBUTION OF RAW JUTE DURING 1968-69

Opening stocks	1.900	million	bales
Production	4.873	,,	,,
Imports	0.500	,,	,,
Total supply	7.273	,,	,,
Mill consumption	6.200	,,	,,
Village consumption	0.200	,,	,,
Exports	0.100	,,	,,
Total distribution	6.500	,,	,,
Balance	0.773	,,	,,

PROJECTED SUPPLY-DISTRIBUTION OF RAW JUTE IN 1969-70

Opening stock	0.773	million	bales
Production	7.636	,,	,,
Total supply	8.409	,,	,,
Mill consumption	6.800	,,	,,
Village consumption	0.200	,,	,,
Export	0.100	,,	,,
Total distribution	7.100	,,	,,
Balance	1.309*	,,	,,

* Out of which 300,000 bales will be held as buffer stock.

interests has been discussed at various levels in the past but effective action is yet to be taken. For instance, it has been pointed out that the Regulated Market Act has yet to be enforced in West Bengal and Assam while in other jute growing areas, its implementation has not been satisfactory. Moreover, the attempts to evolve standards on scientific lines in regard to grades have been making only tardy progress. It is not surprising therefore that the cultivator does not take enthusiastically to the quality improvement programme for jute and mesta. Apart from the attractive prices for foodgrains and the adverse weather, the factors that have slowed down the progress of the quality improvement scheme include considerable delay in mobilising the field staff entrusted with this work, use of defective seed drills and wheel hoes, and malpractices in the arrangements for urea distribution. An official note recently disclosed that many seed drills in some states were lying idle in godowns.

The raw jute supply during 1968-69 is estimated at 7.273 million bales and the demand at 6.500 million bales leaving a balance of 773,000 bales. The estimated supply and distribution of raw jute during 1968-69 and 1969-70 are given in tables on page 598. The government, however, appears to have forecast the demand for 1969-70 at 7.4 million bales—mill consumption 7.1 million bales, village consumption 200,000 bales, and exports 100,000 bales—and has suggested a production target of 8.0 million bales. Whatever may be the final estimates of demand and supply, it is clear that the jute industry will continue to require increasing quantities of fibre, especially of the superior variety. With the reduction in the export duty, increased attention to research and intensive efforts to sell, the foreign demand for our jute goods may be expected to increase. It is important therefore that, as Mr Dinesh Kumar Singh said, "no lapses, financial or organisational, should be allowed to creep into the vital sector of development programme for raw jute."

Wanted: Minimum Programme for Essential Growth

WE HAVE no doubt that what Mr G. L. Mehta Chairman of the Industrial Credit and Investment Corporation of India Ltd (ICICI), said in his statement this year will carry conviction with the authorities. His suggestions are as timely as they are pragmatic. Take, for example, his plea for a positive policy for charting the course of the economy over the coming years. "Now that signs of economic revival are clearly visible," he argues, "it is necessary to lay down a minimum programme for essential growth and policies intended to achieve them." Without merely pontificating pompously, the ICICI chairman has also spelt out the minimum essential programme for growth as well as the policies which, in his opinion, should help achieve it.

A major element in any such programme, according to Mr Mehta, is promotion of agriculture and exports. Inasmuch as the breakthrough in our agriculture has been brought about by the use of fertilisers, among other inputs, and the demand for it is also likely to grow for several years to come, Mr Mehta has urged the government to initiate feasibility studies for new fertiliser projects based on different feedstocks and locations, after taking into account all the available alternatives before it. About exports, the ICICI chief has done well to sound a note of caution against premature complacency by pointing to the still bare scratching of the surface as it were in regard to non-traditional goods. "It has to be recognised," he has said, "that the absolute level of such exports at about Rs 60 crores is still small; of total exports they still form only five per cent and, of total industrial production, less than two per cent. There is, therefore, no cause for any slackness or complacency in the export effort." No one who has some idea of our mounting debt servicing charges year after year as also the likely slowdown in foreign aid, will find any difficulty in appreciating the imperative need to step up our exports, in particular of non-traditional items.

On the industrial front, again, Mr Mehta has hit out at the tendency to rely on a general recovery in the market and to think that it would of its own accord generate a programme for industrial growth. Any such programme must take note of two important factors: first, examination of the constituents of demand for different products and the factors governing their growth, and, second, provision of sufficient supplies where adequate demand exists to enable industry to meet the demand, more particularly in respect of imports. In regard to the former, the ICICI chairman has referred to the role of the government as a consumer of a number of industries, such as railway wagons, electric cables, meters and cast iron spun pipes, and suggested that it should be possible for the government to plan ahead its expenditure and to indicate the extent of its likely demand. While on this point, he has had a dig at our government for being ever so ready in offering advice to foreign governments regarding revision of their annual budgeting procedures for purposes of giving aid to us on a five-year basis without even pausing to commit itself, at least in the matter of development expenditures, over the plan period.

Another vital question is the amount of foreign exchange as well as of rupee finance that even a minimum programme for essential growth entails. It is on the cards, as Mr Mehta has underscored, that, in some respects, the foreign exchange constraint may become more serious still in the next few years. In view of this, it is imperative to make a realistic estimate of the requirement of foreign exchange at a level where capacity is fully utilised, as also of the requirements, both on capital and current accounts, of any new programmes that may be undertaken. Without this precaution, we would only be perpetuating the continual "stop-go" calls to our economy that a severely constricted foreign exchange budget imposes. Here, again, the priorities indicated by Mr Mehta are sound and sensible. The first priority, as he has said, should be to take steps fully to utilise the already established capacity,

and, here, it is the duty of the government, which is the predominant consumer of the products of most of the industries involved, to raise the level of its outlay. The government too stands to benefit doubly by this, first, by way of the excise and tax revenues on the increased production and, also, by providing a strong base for a determined export effort in the shape of the resulting large and stable domestic demand. In this connection, Mr Mehta has called for a switch-over to more sophisticated and skill-intensive industries and such industries as have a large value-added content, e.g. computers and helicopters.

Certain consequences stem from the measures outlined above. Thus, increased investment in agriculture will call for an ambitious programme of transport. As Mr Mehta has observed, "road transport is an essential industry, and it would not be ambitious to plan to double automobile production over the next five years. Such a programme would also expand considerably the activities of several ancillary industries. Moreover, it would help to develop a broad group of industries connected with automobile manufacture and thus help economic recovery." Equally powerful would be the pull of rural demand for more power. When distribution facilities for power are expanded, there will be improved demand for cables, transformers, switchgears and switches, among others. With more prosperity in the rural areas, there will also be demand for location of more industries in these areas, as well as umpteen others that come under the comprehensive term "infrastructure".

All this talk of essential economic growth is fine, but what about the large investment outlay it will need? It is precisely to pin-point this paramount need that Mr Mehta seems to have prefaced his speech with the plea for both fuller utilisation of existing capacity and creation of increased capacity. In the past two or three years, we have experienced a virtual stagnation in investment activity, which explains why even investment institutions such as the ICICI had to go after customers or cajole them not to postpone or drop their projects. But this position has begun to change and Mr Mehta has visualised a sizable impact on the magnitude and structure of institutional finance as the pace of industrialisation increases. One notable addition to the available facilities lately has been the introduction of merchant banking facilities in the country, which is a welcome development, as the ICICI chief has indicated. But the large demand for rupee finance that is expected to be created when the essential programme for growth takes shape will not only tax these facilities but the resources of all the existing financial institutions. Accordingly, Mr Mehta has expressed the view that the "government should make long-term and self-operating arrangements (over and above the present *ad hoc* system of providing finance which is necessarily subject to the vicissitudes of governmental finances) to meet the rupee needs of the finance institutions." One suggestion, or rather a reiteration of an earlier one, is that the bonds and issues of a finance institution such as the ICICI be declared Trustee Securities, so that firms whose investment policies are statutorily controlled can invest in such bonds and issues. The arguments in support of the suggestions are: i) that a part of the flow of funds in the economy emanates from industry and it is necessary that at least some proportion thereof is directly invested in industry and ii) that the bonds and issues of the finance institutions must, in fact, be preferred, inasmuch as they are set up by the government and also receive financial support from it. Since this suggestion was mooted—by Mr H. T. Parikh, we believe, for the first time—the resistance to it, especially from those in charge of provident funds, has perceptibly softened, and it should not be a surprise if the relevant rules are soon relaxed to allow of the proposed changes. The continued resistance to utilisation of even some portion of provident fund balances is as anomalous as to continue not to recognise the units of the UTI as Trustee Securities.

If Mr Mehta has pleaded for a switch-over to more sophisticated industries, he has also shown his awareness of the need for more foreign exchange that this is certain to entail. But from a perusal of his speech, one gets the impression that the ICICI is fortunate enough in securing all the foreign exchange needs of its clientele to which it is committed. It has already had seven lines of credit each from the World Bank and KMF (West Germany), the former aggregating $165 million and the latter totalling DM 72.5 million—a further line is to be negotiated with either this year, we are told. Negotiations are also said to be under way for a line of credit from the UK government. Few institutions can boast of similar sure sources, but then not all of them can claim to have had the same satisfactory record of working either, as the ICICI, which, despite the recession, has managed to maintain its earnings and dividend alike.

Double Ballot for Stability

K. SANTHANAM

IN INDIA, elections to the House of the People and the state assemblies are based upon single-member constituencies as in the UK and the USA. From the point of administrative convenience, it is certainly the simplest system. Where politics is organised on the two-party system, it tends to give to the successful party a larger number of seats than is warranted by the number of votes in its favour. Logically, a party can have 51 per cent votes in all the constituencies and therefore obtain 100 per cent of the seats for 51 per cent of the votes. In actual practice, this does not happen but such distortion always occurs to some extent. From the point of view of political science, this may appear to be unfair but such exaggeration of the majority is held to be a merit as it provides greater stability. In any case, the actual size of the majority is not such an important matter where the people have necessarily to turn to the opposition if it is dissatisfied with the ruling party.

The same considerations cease to apply where a large number of parties contend against one another as happened in the general election of 1967 and in the recent mid-term elections in Haryana, Uttar Pradesh, Bihar, Bengal and Punjab. In many constituencies, the winning candidate got only a minority of valid votes and was able to succeed only because the majority of the votes were divided among other contesting candidates. For the first two elections after Independence, seats for the scheduled castes and scheduled tribes were reserved in double-member constituencies and there were a few constituencies even with three members. But as the number of voters in a double-member parliamentary constituency was nearly a million and in an assembly constituency nearly 200,000, they were all split up into single-member constituencies.

Interesting Analysis

I have tried to analyse the voting for a batch of 128 seats in the recent mid-term polls in Uttar Pradesh. The results are very interesting. Of the 128 successful candidates, only 24 got over 50 per cent of the valid votes, and the party composition was as follows: Congress 12, BKD 8; Jana Sangh 1; and SSP 3. Thirty-three members got between 40 and 50 per cent of the valid votes. Of these, 16 went to Congress, 9 to BKD, 5 to Jana Sangh, 1 each to SSP, Swatantra and CPI (R). No less than 56 members were elected with less than 40 per cent of the votes but more than 30 per cent. They were respectively Congress 24, BKD 14, Jana Sangh 12, SSP, PAP and Independent one each. Lastly, 15 members were elected with less than 30 per cent of the votes of whom 3 were Congress, 6 BKD, 2 Jana Sangh and 4 SSP. Of the defeated candidates, 3 belonging to the Congress, 2 to BKD and 3 to Jana Sangh stood second in those constituencies where the successful candidate got between 40 and 50 per cent of the votes. The similar figures for those who came second in the constituencies where successful candidates got between 30 and 40 per cent and below 30 per cent were as follows:—

Congress 12, 24; BKD 11, 14; Jana Sangh 7, 10; SSP 3, 4; Swatantra 0, 1; CPI (R) 4, 1; Independents 2, 0.

If the principle were adopted that in order to succeed a candidate should obtain not less than 50 per cent of the valid votes cast and where no person got 50 per cent, there should be a second ballot in which the only candidates would be the first two getting the highest votes, it would have two salutory effects. It would ensure that every elected member obtained the support of a majority of the voters of his constituency. Second, many candidates who have now succeeded by minority votes might be defeated in the second ballot.

In the results analysed, it is highly probable that most of the 14 Jana Sangh candidates, 8 SSP candidates, 1 PSP and 1 Independent who won with less than 40 per cent of the votes would have been replaced by either a Congress or a BKD candidate and in the final result, these two parties would have dominated the Assembly, one of them having distinct majority.

I am not sure if by a mere electoral reform stability can be ensured for our state ministries. I am becoming increasingly convinced that the system of responsible government of the British cabinet type which can function effectively only under a two-party system is not suitable to our states which are rent not only by the conflicts of economic objectives but also by religion, caste and community. The American or Swiss system based on separation of powers between the executive and the legislature and ensuring stability for both between two general elections seems to be the alternative. But such a drastic recasting of the Constitution is possible only in a political atmosphere where a general consensus can be obtained. It is also doubtful if the procedure for amendment under Article 368 will be suitable. It may be necessary to convene a new constituent assembly based on adult francise which should be empowered to take decisions only by a three-fourths majority.

Simple Proposal

I think it is desirable that an experiment should be made with the electoral reform as indicated above to see how far it is able to promote the two-party system. The proposal itself is very simple. There will be the general election as at present and all those who get 50 per cent or more of the valid votes will be declared duly elected. In those constituencies where no person gets 50 per cent or more of the votes, there will be a second ballot in which the voters will have to choose one or other of the two candidates who polled the highest votes in the election. In the case of the 128 seats analysed above, there would have been a second election for 104 seats but if the political parties as well as the electorate had known in advance that unless a candidate got a majority vote, they would have to undergo a second ordeal, there would have been a great effort among the parties to reduce multiple contests to the minimum and on the part of voters to make a better choice of the acceptable candidate. I have no doubt that in the course of two or three general elections held under that system, most of the contests would be between candidates of two major parties and second ballots would be needed only in a comparatively small number of constituencies.

Regarding the percentage of votes cast for and the number of successful candidates from the various parties for the entire electorate in Uttar Pradesh, it has been reported that the Congress obtained 49.52 per cent and won 208 seats, the BKD 23.33 per cent and 98 seats, Jana Sangh 7.9 per cent of votes and 33 seats, Independents 4.29 per cent and 18 seats, Swatantra 1.2 per cent and 5 seats and CPI (R), CPM and PSP less than 2 per cent of votes and 8 seats. By the second ballot, the voters who wasted their votes on unpopular candidates in the first ballot would have an opportunity for reconsideration. If our electorate were educated and disciplined, plural constituencies with proportional representation by the single transferable vote may be the most scientific system but plural member constituencies in India will be too large and the system of single transferable voting is not possible with an electorate which is largely illiterate. Under these circumstances, the system of double ballot as I have suggested appears to be an experiment worthy of consideration.

Are Fundamental Rights Amendable ?

PURSHOTTAM TRIKAMDAS

AFTER THE decision in the Golaknath case by the Supreme Court that by reason of Article 13(2), the Fundamental Rights are clearly not amendable, the Supreme Court left the previous unfortunate decisions alone because a lot of titles might have been upset. In doing so, the Supreme Court, however, in my opinion, was in grave error. The Supreme Court should have declared that while whatever had happened, till the decision in the Golaknath case, as a result of the previous decisions, so far as the future is concerned, even those amendments would not be good law.

One of the amendments, as may be remembered, was to introduce Schedule IX and put in hundreds of legislations of doubtful validity in the Schedule in order to prevent any challenge to those acts notwithstanding Article 13(2). If this process had continued, all that Parliament had to do is to put every law of doubtful validity under Schedule IX and thus to prevent any judicial enquiry into the validity of those laws and even the legislative authority under which the laws were enacted.

When the previous decisions were rendered, many of us were extremely unhappy, but after all the decisions of the Supreme Court have been declared by Article 141 to be the law of the land, I do not propose to go into the process by which the previous decisions came into existence, although there is a lot I could say about it and about the Supreme Court sometimes treating high constitutional matters as if they are matters between two parties, deciding the matters on what was argued on either side without carefully considering its own responsibility as the guardian of the Constitution.

However that may be, those decisions were there and Golaknath put them right. After the decision in the Golaknath case, the Government of India was obviously in a quandary and just did not know what to do to regain what they considered to be their unlimited power to amend the Fundamental Rights. Unfortunately, to their help has come Mr Nath Pai, like a Don Quixote, to joust for the supremacy of Parliament.

If there is one thing in our Constitution, which is plain for all to see, it is that Parliament in India is not supreme. The sovereignty as in all federations has been divided between various authorities and each of these authorities is supreme within the limits of the powers entrusted to it. This talk of supremacy of Parliament was also heard rather loudly when the question of privileges had come before Parliament. There also, while Parliament may have all the powers to deal with their own members in the House, the question again was whether Parliament could ride rough shod over the rights of the citizens, enshrined under Article 19 of the Constitution and confirmed from interference by Article 13(2) of the Constitution.

Fantastic Idea

Before I deal with a purely technical aspect of Article 368, I would like to point out that the very idea of the amendability of Fundamental Rights is fantastic. As many people may be aware, the Fundamental Rights enshrined have drawn their inspiration from the Universal Declaration of Human Rights of December 10, 1948. That model was before the Constituent Assembly. The Universal Declaration, however, contains three types of rights. First there are the purely inalienable rights of citizens living in a democracy. The other category is the political rights and the third the social and economic rights. Very rightly, in the Fundamental Rights, the founding fathers included those which are inalienable and which are accepted in any free society. They put the political rights in another place and the social and economic rights very rightly in Part IV dealing with the Directive Principles of the Constitution.

The founding fathers also realised that the mere enumeration of some of those rights would be an empty freedom unless a citizen could go to the courts to enforce it in case of any violation. Article 32 was therefore inserted for the purpose. India is perhaps unique in this respect. Speaking from memory, I believe that the Japanese Constitution also has similar safe guards. The Two Covenants unanimously adopted in 1966 by the United Nations, dealing with the question of Human Rights have very rightly insisted on the right of enforceability without which the most impressive rights would be but empty titles

The second thought which should have dawned on the protagonists of the right to amend the Fundamental Rights would have been that such a right would entitle Parliament to take away the right of approaching the Supreme Court under Article 32, as also the High Courts under Article 226. Remove these provisions and the Fundamental Rights disappear in thin air. Let those who want to assert the supremacy of Parliament, which does not exist, ponder deeply over this aspect.

If the right exists in Parliament to amend the Fundamental Rights, the result would be that Part III of the Constitution would be a plaything in the hands of any party which happens to be in majority in Parliament for the time being, even if it were only a fleeting majority where members change sides with the utmost facility. This would of course make the enemies of democracy rejoice—I mean the communists who

Eastern Economist 25 Years Ago

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An unfortunate by-product of the spread of modern industrialism in India has been the relegation of agricultural problems to the background. This need not be so and is wholly avoidable. Those among us who freely quote western achievement to strengthen their case for further industrialization of India rarely pause to reflect on the sense of proportion maintained by the leading industrial countries of Europe and by the USA to strike an economic balance between agricultural and industrial development. In the past extreme claims from the industrial interests have provoked extreme claims from the agricultural interests and this has come in the way of fruitful co-operation in the country's interest. In this rivalry agricultural labour has suffered most. Industrial labour is organized, concentrated as it is in urban centres, with very vocal politicians to represent its grievances in legislatures as well as on the public platform—facilities almost wholly absent in the case of agricultural labour. In the context of such a situation the address delivered by Swami Sahajanand Saraswathi rightly contradicted official propaganda to the effect that the ryot is at present very prosperous under boom prices for foodgrains. The fact is that his produce is practically commandeered now almost over the whole of India for the sake of the town dwellers at prices which are not more than eighty to hundred per cent above the pre-war level, but few are bothering about commandeering on his behalf the other articles of food, living and cultivation that he needs, the prices of which have gone up by three to four hundred per cent.

are clamorously out to support the right to amend the Fundamental Rights. The right to amend the Fundamental Rights would, if the justiciability is removed, be like a castrated bull and those who believe in a sound democracy and a society in which the citizen has his basic rights are bound to be tremendously distressed if this obsession of "supremacy of Parliament" ultimately tempts Parliament to attempt to amend these Rights.

I am happy to find that in Parliament itself, there is a large section, including many members of the Congress party, who are not very happy about the adoption of Mr Nath Pai's Bill. The very idea of a whip in a matter of this kind is, to my mind, an attempt to railroad a very important matter through Parliament and ironically enough, suppress the rights of Members of Parliament in order to bring them into submission to a chimerical obsession with the supermacy of Parliament.

Coming finally to Article 368 of the Constitution, a look at it would discount the idea that Part I of Article 368 authorises Parliament to amend the Fundamental Rights by a simple majority vote. In Part II, there are numerous matters enumerated which are of much less importance and deal largely with the rights given to the states under the Constitution. Those comparatively unimportant rights require a special procedure before they can be amended, but Part I of Article 368, it is claimed, can ride rough shod over the rights—declared by the Constitution-makers to be the Fundamental Rights of every citizen in our great democracy—by the whim of a bare majority. The enthusiasts seem to forget that Article 368, whether it is procedural or otherwise, can also be limited by the Constitution itself and the founding fathers have in unequivocal terms, under Article 13(2), stated:—

> "13(2). The State shall not make any law which takes away or abridges the rights conferred by this Part and any law made in contravention of this clause shall, to the extent of the contravention, be void."

In this connection, there has been a great deal of controversy regarding what the meaning of the law is. This, in my opinion, is mere hair-splitting since "law" itself has been defined in Article 13(3) of the Constitution.

There are some, including those who are more communists than the communists themselves, who argue that the right protecting private property under Article 19 and Article 31 should never have been included in the Fundamental Rights. I venture to submit that the plea that property should have no protection whatsoever is to misunderstand the nature of property in a democratic state. There is no such thing as absolute property because a democracy is entitled, in the public interest, to tax it or to lay down restrictions regarding the possession of it. But to deny to the citizen the right to hold and to dispose of property and not to be deprived of property without fair compensation is something which is difficult for any democrat to understand. Property is not necessarily ill-gotten gains. It has evolved with society as such and in many cases it is the result of sweat, tears and blood expended on it by the pioneers, old and new, who are trying to build a modern state. Property, in this country, as in many other countries which believe in a welfare state, is also a great insurance for the rainy day and if we give an unlimited right to government to do what it likes with anybody's property, we shall be soon on the way to being enslaved by the state.

Problems of Engineering Industry

A Special Correspondent

THE ENGINEERING industry in this country has made phenomenal progress in the last few years and is also making a significant contribution to our exports. It has, however, still problems to face which were referred to in a recent seminar held at Bombay by the Engineering Association of India, Western Region. It is proposed to highlight here the problems discussed and suggestions made by leading men in the engineering industry at the seminar.

The industry occupies a premier position in the country with an annual output of over Rs 2,000 crores. In spite of this output, the capacity utilisation in the industry is less than normal, particularly in heavy structurals, textile machinery, machine tools, steel castings, wagon building and cable industry. The situation is particularly evident in the case of the machine tool industry where even the public sector unit, which has been maintaining a steady progress during the last ten years has been pushed into the red due to lack of demand. It would be possible, by judicious use of existing capacity to create productive capacity and fulfil the requirements of the other user industries during the fourth Plan, without persisting in the tendency to create additional and duplicate capacity in the public sector. All efforts should be harnessed towards optimum utilisation of existing capacity, as envisaged in the "Approach" document to the Plan. The view was expressed that the output of the steel plants continues to be production-based rather than consumer-oriented. With an output of four million tonnes of semi-finished and finished steel in 1967-68 there has been still an acute shortage of flat products, particularly cold rolled sheets, boiler quality plates and other flat products. The industries depending for their production on these sections have been put to considerable hardship. For example, in the case of CRCA sheets, the limited availability has been further curtailed by their diversion for making galvanised sheets.

The proposed expansion of the flat mill in Rourkela not having materialised in time, the hot dip galvanising plant has perforce to be supplied from the existing rolling programme, reducing the availability of prime quality sheets. The process of distribution of these items by the Joint Plant Committee has also led to a thriving free market for these scarce category items. It is a matter for surprise that the free market prices of prime quality CRCA sheets and black sheets are higher than the prices at which galvanised sheets are available. The Engineering Association made a plea last year for allocating larger quantities of seconds and defectives, along with prime quality sheets, to the user industries, instead of channelling them through the trade in package deals. This was acceded to, but so far has not been translated into action. In this context it was pointed out that the exports of iron and steel items are expected to reach about Rs 70 crores this year. It was suggested that if, out of the foreign exchange earnings of these exports, about Rs 10 crores could be earmarked for imports of such items of steel as are scarce, the present shortages could be effectively reduced and the engineering industry, for which steel is the vital life line, made self-sufficient for raw materials.

Another problem which has been causing concern to the engineering industry has been the supply of pig iron to foundries. This has been highly irregular and scarce. The desired foundry grades are not available and foundries have been severely handicapped. The shortage has often been attributed to large scale exports in pig iron. In the matter of basic industrial raw materials, domestic requirements of industry should override export demands and only the surplus, either existing or created, should be exported. A few years ago we had to import pig iron from the USSR. We are now in a better position to export. But the requirement of the foundry industry is more vital and it would be more desirable to develop export

of machined and un-machined castings rather than pig iron.

Reference was made by a number of speakers to the position of raw material supplies to the engineering industry, including not only such materials as various ferrous and non-ferrous metals and metal products but also a large variety of processing materials which are necessary as basic raw materials. The picture in this respect was gloomy. Besides, the flow of raw materials into these industries is not regular, in that occasionally certain raw materials may be in abundant supply, whereas suddenly the industries are confronted with acute shortages. This is amply borne out by the peculiar position of supplies of pig iron, sudden glut being followed by total non-availability for months. Similarly as regards steel, while some categories of steel are abundantly available, a large number of categories such as certain light structurals and flat products are acutely in short supply. Similarly a large number of engineering industries depend upon both indigenous and foreign sources for their requirements of a large variety of processing materials and components. Due to inadequacy of supplies from indigenous sources, industries have to depend upon imports. However our import regulations being very rigid, it is very difficult to get their requirements in time and in adequate quantities.

Impeding Factors

All these factors tend to impede production and also compel the industries to carry large inventories. However financial resources of most industries being limited, it is not possible for all these industries to carry large stocks of these materials when they are easily available. Even in the case of those industries which are financially strong to carry large inventories, they have to bear large overhead costs such as interest, storage costs and wastage of these materials. When the government and the people of this country complain about prices of manufactured goods being high, they do not take into account the large overheads that the industries have to carry due to lower production on the one hand caused by shortage of raw materials and large overheads on the other hand because of large inventories which some factories carry. Therefore free imports of such materials and components as are in short supply should be allowed, otherwise shortages are bound to continue and industry is bound to suffer from higher costs of production

In regard to export of engineering goods, it was gratifying to note that they were looking up and that the incentives provided were appreciable, but there are delays in procedure in realising them. Applicants have to go from pillar to post for different types of incentives to which they are entitled. It would, therefore, be advisable to centralise various benefits so that one central authority would be responsible for the entrepreneurs who apply for such incentives. Alternatively export incentives should be given in the shape of export vouchers which could be used by exporters to obtain their requirements of raw materials for sale to other importers. Formation of consortia to face world competition from our exporters is also very necessary to avoid unhealthy competition in the same commodities abroad. Further, it is necessary to make the development and expansion of the existing public and private sector units export-oriented, so that it would be possible to earmark a portion of their additional production for export and thereby make available larger foreign exchange for the country.

It was stressed that the continued large-scale development of the engineering industry is still a real and major national need. The present number of engineering factories is 14,291 or 25.1 per cent of the total number of registered factories. This means that one in every four factories now is an engineering establishment. They give employment to about 1.4 million workers or nearly 30 per cent of the total factory employment. We have soon to reach the day when our engineering industries, as in the other industrialised countries, begin to contribute one-third of the gross domestic production, and begin to export one-fourth thereof. Thus, and thus alone, will India be entitled to take its rightful place among the highly industrialised countries of the world.

FROM THE PRESS GALLERY

Second Thoughts on Agricultural Taxes

• Our Parliamentary Correspondent

NEW DELHI, Tuesday.

THE SHARP reaction to Mr Morarji Desai's proposals which aimed at taxing agriculture has produced the result desired by the opposition. The Deputy Prime Minister and Minister for Finance indicated in his reply to the Lok Sabha's general debate on the budget that the three imposts on agriculture—(i) the extension of the Wealth Tax Act to agricultural properties, (ii) the 10 per cent ad valorem excise duty on fertilisers, and (iii) the 20 per cent ad valorem excise levy on power-driven pumps—would be reconsidered by the union cabinet. Mr Desai further pointed out that since the wealth tax on agricultural properties would take effect only from April 1, 1970, the final decision to go ahead with it or not could be taken during the course of the year also in the light of the success or failure in formulating the provisions for protecting the interests of genuine agriculturists. Various formulae were being considered for this purpose. The state governments would be consulted in the matter.

Mr Desai, however, asserted that the above three proposals had been made by him in the belief that agricultural production would not be affected by them. In the case of fertilisers, he pointed out, his assessment was that the proposed excise duty would mop up for the exchequer only four rupees out of an average increase in farm production (resulting from the application of fertilisers) worth about Rs 134. In regard to power-driven pumps, he stressed that the new excise levy had been proposed with a view to equalising somewhat the burden on the agriculturists who used electricity-driven pumps and those who used diesel power pumps. A pumping set driven by diesel, Mr Desai emphasised, cost many times more than the one in which electric power was used; the farmers using the latter types of pumps, therefore, enjoyed an advantage. The Finance Minister refuted the charge that the extension of the Wealth Tax Act to agricultural properties by the central government was unconstitutional. Under the Constitution, he reiterated, only agricultural incomes were to be taxed by the state governments. The centre was within its rights to levy wealth tax on agricultural properties as well as taxes on farm inputs; both the former and the present Attorney-General had upheld this view, he added.

Need of the Hour

Vigorously defending the concessions he had given to industry, Mr Desai emphasised that they were designed to enable the economy to continue on its path of recovery. If further burdens had been imposed on industry or no relief had been granted to it, it would have been suicidal, he said. The need of the hour, Mr Desai pointed out, was that idle capacity should be utilised and export effort should not be allowed to suffer. Besides, it was essential to revive the capital market so that people could divert their savings into investments.

Mr Desai dwelt at length on the centre-state relations and stoutly denied the charge that he was trying to precipitate a crisis. In his opinion, most of the differences between the centre and the states centred on the demand by the states for larger resources. But this demand, Mr Desai observed, could not be met. The division of resources between the centre and the states, the Finance Minister pointed out, had been laid down in the Constitution and had been done in accordance with the recommendations of the Finance Commission.

The demands for effecting economies in expenditure were ruled out by the Finance Minister. In the case of civil expenditure, he said, there was very limited scope for economy. So far as defence expenditure was concerned, he had to go by the advice of the Defence Minister who, in turn, was to be advised by the chiefs of staff. Mr Desai revealed that last year a saving of nearly Rs 100 crores had been effected in defence expenditure. This sum had been utilised for acquiring additional equipment. The resort to deficit financing of the order of Rs 250 crores, Mr Desai felt, would not upset the price level as production was expected to increase both in the industrial and the agricultural sectors.

The discussion on the budget started in the Rajya Sabha this week. Its course was not much different from that of the last week's deliberations in the Lok Sabha. Several Congress and opposition members asked the government to cut wasteful expenditure on administration instead of imposing fresh taxes to balance the budget. The need for improving the performance of the public sector was also emphasised. Some members felt that market borrowings could be stepped up. The levies on the agricultural sector were scathingly criticised.

Incentives to Exports

Among the new points made in this discussion, though a few but significant, was the dissatisfaction expressed with the incentives for exports of tea and jute manufactures. Mr M. K. Mohta (Swt.) pointed out that hessian exports needed a subsidy of Rs 200 per tonne because the industry in Pakistan enjoyed a subsidy of 50 per cent in the shape of bonus vouchers. He also regretted that carpet backing, which had a potential of earning foreign exchange worth Rs 175 crores by 1974, was being subjected to heavy export duty. In regard to tea, Mr Mohta observed that it was necessary to refund excise duty completely as tea exports were encountering much stiffer competition than had been the case hitherto. He cited the example of Ceylon which through adopting a judicious fiscal policy had become the largest exporter of this beverage in the world.

Mr C. Achutha Menon (CPI) opined that the budget gave the feeling that the Plan was being steadily scuttled. No serious attempt had been made to mobilise fresh resources and to formulate an effective plan to take the economy forward, he complained. Unless development was fostered at a rapid pace, he felt, it was impossible to eradicate poverty. Mr Menon suggested nationalisation of banks and the import and export trade. He also expressed the view that additional resources should be raised for development by all states through levying agricultural income-tax on rich peasants and landlords as had been done by the Kerala government.

Mr Babubhai Chinai (Cong.) stoutly defended the tax on agricultural wealth and pointed out that the agricultural sector with an income of Rs 15,000 crores per annum—half of the national income—contributed hardly four per cent of this to the centre and the state governments by way of land tax, excise and other levies. There was economic justification for the imposition of wealth tax on agricultural lands and the excise duty on fertilizers, he asserted. The resort to deficit financing to the extent of Rs 250 crores was criticised by several members on the ground that it would accentuate inflationary tendencies in the economy. But some other members observed that the Finance Minister had been cautious in this regard "to the point of timidity."

The Lok Sabha passed after a brief debate the Public

Employment (Requirement as to Residence) Amendment Bill which sought to extend by another five years the statutory base of what are commonly known as the 'mulki' rules. These rules, which are in force in the union territories of Himachal Pradesh, Manipur, Tripura and in the Telengana region of Andhra Pradesh, lay down that only people resident in these areas for a prescribed period can be eligible for appointment to subordinate services and posts in public employment. (This is intended as a measure of protection for the people of these backward areas.) The bill, which has already been passed by the Rajya Sabha, sought further to apply these rules to those areas of Himachal Pradesh which had been transferred to this union territory from Punjab in November 1966.

Question Hour

Foreign Debts: The Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, rejected in the Rajya Sabha on March 18 a suggestion for the declaration of moratorium on foreign debts. This country would never disown anything, declared Mr Desai. The Deputy Prime Minister, however, added that efforts were being made to get the debts rescheduled.

Compressors and Pumps: The Minister of Industrial Development, Internal Trade and Company Affairs, Mr Fakhruddin Ali Ahmed, told the Lok Sabha on March 18 that the government had decided to set up a project in the public sector for the manufacture of heavy compressors and special pumps required by the fertiliser industry, chemical and petrochemical plants and steel undertakings. The project, estimated to cost Rs 10.68 crores including a foreign exchange component of roughly one crore of rupees, would have a capacity of 6,000 tonnes per annum.

HMT: Mr Ahmed told the Rajya Sabha on March 17 that the Hindustan Machine Tools, Bangalore, was examining the feasibility of setting up an assembly plant in Europe to meet the specific requirements of the foreign customers of its products with regard to delivery dates and diverse specifications.

Public Sector Undertakings: Mr Ahmed also told the Rajya Sabha on March 17 that the government was considering a proposal for setting up a high level committee for co-ordination of the basic problems and issues relating to public sector units. The committee would, inter alia, review periodically the order positions of these plants, particularly those of the heavy machine building and the heavy electrical units, and consider resource requirements and allocations so as to ensure effective utilisation of the installed capacity.

Gold Output: The Minister of State for Finance, Mr P. C. Sethi, told the Lok Sabha on March 17 that various steps, including exploration of new reefs in the Kolar gold fields concession area were being taken to raise production of gold. Sanction had been given for the schemes for increasing the production of the Nundyroog mines from 20,000 tonnes to 25,000 tonnes of ore per month and for the re-opening of the ore-rich north folds of the Campion reef mine which had been closed down as a result of rockbursts. The question of resuming mining operation in the southern ore body of the Campion reef was also being considered. It was expected that these measures would bring down the cost of producing gold.

State Overdrafts: Mr P. C. Sethi also told the Lok Sabha on March 17 that the governments of Andhra Pradesh, Assam, Bihar, Kerala, Mysore, Nagaland, Orissa, Rajasthan and Tamil Nadu were currently running unauthorised overdrafts on the Reserve Bank. Their overdrafts as on March 10, 1969, were: Andhra Pradesh Rs 70 lakhs; Assam Rs 847 lakhs; Bihar Rs 739 lakhs; Kerala Rs 643 lakhs; Mysore Rs 1,037 lakhs; Nagaland Rs 150 lakhs; Orissa Rs 537 lakhs; Rajasthan Rs 2,456 lakhs and Tamil Nadu Rs 2,368 lakhs.

Central Farms: The Minister of State for Food, Mr A. P. Shinde, informed the Lok Sabha on March 13 that two more central agricultural farms were likely to be set up shortly. They would be located in the Raichur district of Mysore and in the Cannanore district of Kerala. Already central farms have been established in Orissa, Rajasthan, Punjab and Haryana. The question whether more such farms should be set up during the fourth Plan period was under the consideration of the government.

MIG Aircraft: The Minister for Defence Production, Mr L. N. Mishra, told the Rajya Sabha on March 13 that the production of Mig aircraft was proceeding according to schedule and by 1972 the indigenous content in the aircraft would be more than 60 per cent. The USSR was supplying information on research and development to improve the aircraft and modifications were being made accordingly.

Russian Assistance The Minister for Foreign Trade and Supply, Mr B. R. Bhagat, told the Lok Sabha on March 12 that the Government of the USSR had agreed in principle to assist in the export of products of Russian-aided projects in India to third countries. Offers of assistance in our export efforts received from the western countries were not entirely comparable, but these countries also intended to help us in improving our exports.

Luxury hotels: The Minister for Tourism and Civil Aviation, Dr Karan Singh, told the Lok Sabha on March 12 that the government had approved proposals for starting three luxury hotels in Bombay with US collaboration as part of the efforts to promote tourism. One of these hotels would be a collaboration between Oberoi Hotels and the Shereton Group of Hotels. The second would be a collaboration between Tatas and the Intercontinental. The third proposal was a collaboration between Shiv Sagar and the Hiltons.

Kutch Oil Exploration: The Minister for External Affairs, Mr Dinesh Singh, denied in the Lok Sabha on March 11 that Pakistan was prospecting for oil in the Kutch area where differences had arisen on the delineation of a rocky feature.

"Two more states under Governor's rule!"

F.I.C.C.I. SESSION

PM: Discipline Can Reduce Curbs

THE PRIME Minister, Mrs Indira Gandhi, while inaugurating the 42nd annual session of the Federation of Indian Chambers of Commerce and Industry on March 15 in New Delhi called upon the captains of industry to exercise self-discipline among themselves to avoid governmental controls.

She stated that in the absence of self-discipline it became necessary for the government to apply controls to regulate the use of scarce resources and to protect the consumer, especially when competitive conditions did not prevail in many sectors of industry. She maintained that the government's approach to controls was not doctrinaire. "We do not believe in controls merely for the sake of controls. Nor do we accept the view that controls are bad in themselves." Mrs Gandhi indicated that the government was not unaware of the problems being faced by industry such as the scale of taxation, slackness in the capital market, etc. She, however, assured the industry that the government was always prepared to respond to reasonable, desirable and practical suggestions.

The Prime Minister pointed out that basic and strategic industries requiring significant investment in foreign exchange should be carefully planned and subjected to licensing as priority had to be given to allocation of scarce resources. She said that when the foreign exchange needed for maintenance imports became marginal and the interests of small and village industries were looked after, there might not be any need for industrial licensing.

Referring to the fourth Plan, Mrs Gandhi said the broad approach would be to confine detailed planning to key sectors. She asked industry to devote greater attention to the formulation of programmes and to make a continuous study of demands in our country and abroad with a view to adjusting production patterns for domestic and export needs. She said that the prosperity of industry was inter-linked with agriculture and efforts would be continued to stimulate agricultural productivity and intensify research on commercial crops. Mrs Gandhi told industry that the time was now ripe to strike out more vigorously to capture markets in rural areas, especially for consumer goods. It was essential that industry should evolve completely new techniques of the marketing of its products for the purpose, she said.

PRESIDENT'S ADDRESS

Mr G. M. Modi, President, Federation of Indian Chambers of Commerce and Industry, in his address to the Annual Session of the Federation, stated that, we could look back with some satisfaction to the past year. Agricultural production has been larger; industrial output has increased by about 6 per cent; exports have enlarged considerably. This improvement in the economic situation did not come merely through chance. It was the result of deliberate effort on the part of both the government and the people. Apart from the bumper crop, the reduction in the rates of interest, the provision of larger credit by the financial institutions for investment and exports, and the endeavour made by industry to find new markets abroad, all contributed to the improvement in the situation. Extracts from his speech are given below.

"I am one of those who believe that the key to our economic progress is the development of agriculture. I must compliment the government for measures that have been taken to put agriculture on a sound footing. These measures have ushered in a 'green revolution'. The high-yielding varieties of seeds have made a radical improvement in our agriculture. Now that we have made some headway in foodgrains production, it is necessary that research for developing new strains in cash crops like oilseeds, sugarcane, cotton, jute etc., is intensified. Our progress in other agricultural inputs like irrigation, fertilisers, and agricultural machinery has been rather slow. Today we irrigate only about one-fifth of the cropped area.

Industry is recovering from the set-back it got in 1967. Expansion was halted. This created large unemployment, particularly among fresh technologists. The Federation is undoubtedly concerned about this problem. We advised our constituents to absorb as many of these technologists as possible and provide them in-plant training and thus help in solving at least a part of the problem.

Unattractive Opportunities

Many investment opportunities have become unattractive because of controls on prices. These controls were devised in conditions of shortages. But in spite of controls, or should I say because of controls, shortages have continued. Unfortunately, an impression has been created that the area of control may be widened and not narrowed

Our import policy does not always conform to the requirements of indigenous development. A number of items for which there is sufficient production capacity, or which can be substituted by domestic items, have been imported. This point was highlighted in a seminar on "Import Substitution" organised by the Federation last October.

Restraints on size of our companies can put us at disadvantage in world market. Already the size of our companies is small and therefore our cost of production is high.

The main reason, however, which has hampered our industrial development is the slackness in capital market. The fall in company formation was primarily due to shortage of finance. Capital raised by companies against consents, in the private sector, has declined from Rs 102.6 crores in 1965-66 to only Rs 56.1 crores in 1968-69.

The need for taxation would have been considerably less if the Rs 3,500 crores which are now invested in public sector undertakings had been able to earn an adequate return. In 1967-68 these undertakings, on the contrary, made a loss of Rs 35 crores, net of depreciation. We do recognise that public undertakings have a legitimate and, indeed an important place in our economy. But, unless the resources are properly utilised, the economy will not get the necessary dynamism.

I would like to submit that the final objectives of government and the business community are the same. We both aim at a faster rate of development. I assure you, on behalf of the Federation, that we shall fully co-operate with government in the great endeavour of nation-building."

THE RESOLUTIONS

The following three resolutions were passed by the Federation of Indian Chambers of Commerce and Industry at its 42nd annual session held in New Delhi between March 15 and 17.

New Factors in Economic Growth

In the opinion of the Federation, business, trade unions and government must take note of the many new factors that have emerged both on the national and international scenes and

appropriately revise their attitudes, policies and actions so that the process of economic development can be accelerated and social stability strengthened.

First, the Indian economy, with the growth in industries and recently in agriculture, is not only stronger but has grown out of the underdeveloped to an intermediate stage; Secondly, in the wake of the intensive application of science to industry, business operations have necessarily to be on a larger scale; Thirdly, there seems to be some disillusionment in developed countries in regard to aid to developing countries; Fourthly, the crisis in international monetary relations is sought to be overcome by developed countries through restrictive trade policies. Having regard to these and related factors, the Federation urges upon.

Business in India (a) to cater effectively to the demand in rural areas for new goods and services, (b) to be increasingly vigilant about and to adopt new techniques of production and management so as to bring about modernisation and reduction in costs, (c) to look upon the development of infrastructure by government as an imperative component for growth, and (d) to assist in the improvement in the quality of education which alone can promote the wider application of science to industry and agriculture.

Trade union in India to firmly recognise that (a) the surest guarantee for improvement in the standard of living of workers lies in greater production and productivity; (b) greater use of modern machinery will increase and not diminish employment opportunities; (c) the trade union movement can develop on healthy lines only if they (trade unions) do not function merely as wings of political parties.

Government, at the centre and in the states (a) to remove all controls and impediments to investment, production and distribution and thus enable industry in India to grow up to international standards, (b) to reduce taxation on corporations and individuals who are capable of saving at a higher rate than Government so as to increase national savings and investment, (c) to help exports to expand and imports to reduce through appropriate fiscal measures and removal of procedural difficulties, (d) to concentrate on improving the working of the existing public sector undertakings so as to make them produce larger output and earn higher returns, (e) to welcome private foreign investment and know-how as effective agencies for narrowing the technological and balance-of-payments gaps and to expedite the disposal of applications for collaboration and investment.

Fundamental Rights

The Federation views with grave concern the move to amend the Constitution of India to empower Parliament to amend the constitutional provisions relating to Fundamental Rights. The Federation is of the view that the Constitution of India which enshrines the fundamental law of the land is paramount and supreme and the rights and freedoms guaranteed in Part III of the Constitution are fundamental and sacred. The Federation strongly feels that they should be guarded against excessive powers of state by excluding the jurisdiction of the executive and of the legislature.

The Federation in this connection would like to recall the solemn assurances given in the Constituent Assembly by the late Prime Minister, Jawaharlal Nehru, and the then Law Minister, Dr Ambedkar, to the effect that Fundamental Rights guaranteed by the Constitution were the foundation of the whole structure. If the bill to amend the Constitution is passed, the said Fundamental Rights would be rendered nugatory and would be changeable at the will of the ruling group for the time being. The Federation is convinced that there is no justification for unsettling the law as upheld by the highest judicial authority, viz., the Supreme Court of India and any such effort would shake the faith of citizens in the democratic principles embodied in the Constitution of India.

In particular, the Federation would like to point out that if the rights to property guaranteed by the Constitution were allowed to be disturbed at the sweet will of the government, the task of economic development would be confronted by serious difficulties flowing from the resulting waning enthusiasm and even positive reluctance of entrepreneurs, especially those from abroad, in risking their capital for investment in industrial ventures in the country. The Federation, therefore, records its strong objection to any move to empower Parliament to amend the provisions relating to Fundamental Rights, and makes an earnest plea to all concerned, viz., government, Members of Parliament and citizens of this country to ensure that the suggested move does not become effective.

National Integration

The size of our country our heritage and our diverse cultures are valuable assets. Our national genius can find fullest expression only in unity—both economic and political. The Federation is, therefore, concerned that during the last few years divisive trends have come to the fore in the country. Language, religion, state boundaries and river waters have become causes for violent thoughts and action. Political parties are not unwilling to use fissiparous forces for their own ends at the expense of national unity. The highly political "sons of soil" movement, it is unfortunate, is receiving tacit or even open support from some authorities. The proliferating 'Senas' are a dangerous extension of the same movement.

The Federation notes with concern that even in respect of a basic commodity like food, the country is still not treated as one. The increasing tendency towards canalised imports discriminates against established trade channels. Of late, an alarming trend has also come to manifest itself in the purchase policy pursued by practically all state governments. State governments by executive decisions have accorded preferences to units, both large and small, located within the state. Some of them have openly issued instructions to government departments and autonomous boards to buy only local products. Another disturbing feature is that more and more state governments are discriminating against units in private sector in the matter of purchases in preference to units set up under the aegis of state governments. Besides, a variety of barriers impede the free flow of goods throughout the country. Sales tax rates and procedures have little relation between one state and another. The same holds good about motor vehicles laws as well.

The narrow and parochial attitude of state governments goes against the very spirit of the Constitution. In fact, Article 301 of the Constitution clearly stipulates that subject to certain provisions "trade, commerce and intercourse throughout the territory of India shall be free". The Federation, therefore, strongly urges that the constitutional provisions should be enforced in letter as well as in spirit. A uniform purchase policy should be adopted and strictly enforced by all state governments. Sales tax and other state laws and regulations should be streamlined to bring them in line with each other.

In the opinion of the Federation, only accelerated and broad-based economic development can remove the grievances of the comparatively less-developed areas and those of the vulnerable sections of the society. A growing economy can provide a major bulwark for unity of the classes as well as the masses. In this behalf, political acceptance of the national economy as one and indivisible unit is an imperative of the highest order. The Federation wishes to reiterate that business by its very nature knows no frontiers. As such, its interest in the integrity of the country is deep and vital. The Federation, therefore, pledges its whole-hearted support for all government policies and programmes directed towards achieving national integration.

WINDOW ON THE WORLD

The ABC of Speculation

JOSSLEYN HENNESSY

I

A FRENCH VIEW

LONDON

WHEN INTERNATIONAL traders took fright in November last and "assailed" the franc, there was no serious pressure of internal demand in France, so that official circles, who know no better, and many economic commentators, who ought to have known better, blamed "gnomes and speculators" for the attack on the franc. Reporting this here on January 17, I said that I hoped that someone would work out, if possible, the total of liquid non-assigned funds available in the world's free markets for purely speculative purposes, and I guessed that they would be found to be so small a percentage of the funds crossing frontiers that, of themselves, they would cause scarcely a ripple in exchange rates. The vast majority of available funds are earmarked for the export and import of goods or services. It is, I said, the most elementary, sensible, economically and socially justifiable precaution on the part of the owners of these funds to engage in forward exchange operations to avoid being caught out by a devaluation or a revaluation.

Since writing this, I have read a report on this very subject in the latest issue of the Bulletin (published in French) of the National Federation of French Employers (31 Avenue Pierre I de Serbie, Paris), which seems to me to deserve the widest publicity, particularly among the officials of most Ministries of Finance and Commerce, who usually seek every opportunity of blaming the results of their own policies on "speculators"

Forward exchange deals, says the French Employers' Bulletin, are a normal and essential part of international trade and commerce, but the risks of changes in exchange parities in the currencies used in exporting and importing have boosted operations in forward exchange markets. The industrialist or businessman who has contracted a debt in a foreign currency in the course of a normal commercial or financial transaction is naturally anxious to avoid exchange risks, if only to enable him to make more realistic forecasts for the future of his own enterprise and its activities. He therefore buys ahead currency for the amount that he will have to pay up on a due date. Or he sells ahead to cover himself against the risks of devaluation of a currency in which he has future payments due to him. These are normal precautions and can by no stretch of imagination be called speculation against his own or a foreign currency.

Opposite Effect

They are, indeed, the exact opposite of speculation, because they tend to smooth out the ups and downs in prices resulting from speculative or other movements on the foreign exchanges. They bolster the safety of international trade and are indispensible if it is to continue and to expand. It need hardly be added that if international traders were as confident in the fixity of exchange rates as they were in the era of the gold standard the forward exchange market would never have assumed the size and the importance that it has since gold was abandoned.

That forward exchange deals in French francs assumed greater proportions after the May-June, 1968, riots and strikes than before was the natural consequence of the ensuing weakening of the French economy. Could the franc stand the substantial rise in domestic money supply following the wage increases? Could exporters make up for production-time lost, sufficiently and quickly enough, to pay for French imports?

After the May-June crisis ever increasing numbers of foreign exporters to France insisted that French importers should make their contracts in foreign currencies and no longer in French francs as before. It was this development, which originated outside France, that compelled French importers in turn to cover themselves on the forward market against risks which had not previously existed. Nor were their forward operations inspired by any quest for speculative profits. The volume of these forward deals was in reality a return to normal, because it was natural that an enterprise, having contracted a debt to a foreigner in a foreign currency, arising out of normal foreign trade transactions, should protect itself against a devaluation of the franc.

The French Employers' Bulletin remarks acidly that the limitation on forward exchange deals imposed by the French government on December 4 would in no way diminish this form of insurance but would only transfer the operation from the French forward exchange market to a foreign market, with the results that (a) French banks and arbitrage dealers would lose the business and (b) the cost of imports would be increased and therefore raise domestic prices. If a foreign exporter now contracts in French francs, he will cover his exchange risk on his own market, and he will raise his selling price to the French importer to allow for the cost of this currency insurance.

Such forward foreign exchange deals cast their shadow on the balance of payments. Instead of appearing in the accounts of the Bank of France, the currencies bought remain in the accounts of the banks which have acquired them on behalf of their customers. Deducted in advance from the official reserves, they are none the less part of the reserves of the French economy, although it may be thought artificial not to count these private reserves in the official reserves of foreign exchange which act as guarantee of French payments abroad.

II

GOVERNMENTS RESPONSIBLE FOR SPECULATION

The French Employers' Bulletin next makes the elementary point that international trade would be impossible without credit. What is called "leads and lags" in the UK, i.e., the shortening or lengthening of the periods within which an importer pays up, or postpones paying, can induce trasfers of capital. Here, again, so long as these credits arise out of the needs of trade, there is no speculation in "leading" or "lagging". Since international trade depends on credit, a goverment which sought to limit credit would simply reduce correspondingly the opportunities of its nationals to buy or sell abroad. If trade is to expand, individual enterprises must be free to judge the extent of credit that they consider realistic to grant to their overseas buyers or to obtain from their overseas sellers.

It is up to the different governments, each responsible for its credit policy, to determine the volume of its credit creation in accordance with (1) the internal needs of the economy, (2) the course of its balance of payments, (3) the needs of its international trade, and (4) the need for co-operation between the international monetary authorities and central banks. The Frence Employers' Bulletin points out that if French enterprises have granted more credit than hitherto to their overseas customers, while this may mean that France's reserves of foreign exchange may be replenished less rapidly, they are, on the other hand, facilitating French exports, the sale of which has become more difficult following the decline in the competitiveness of French prices. This, again, is not speculation but the financing of French exports.

The Bulletin next insists that the convertibility of the franc makes it perfectly legitimate for foreigners to withdraw any capital that they may have in France. After all, the franc is either convertible, or it is not.

Some withdrawals of capital have been caused by the conversion into foreign currencies of assets in France belonging

to foreigners. As long as the franc claims to be a convertible currency, the Bulletin insists that if the confidence of foreign holders in it is diminished, they have a perfect right to demand the conversion of their assets into any other currency that they think safer. At the same time, the Bulletin takes the opportunity to congratulate itself that the franc is not a reserve currency like the pound or the dollar, because this means that the risk of sudden withdrawals of foreign assets is less serious than for the USA or the UK.

The only speculation which the French employers are prepared to condemn is that made in search of a profit by liquid funds, unattached to commercial transactions. At the same time the Bulletin is careful to point out that up to November 25 such speculation for profit was, like all the other types listed above, perfectly legal, because in freeing the exchanges on September 5 the government had deliberately chosen to subject the franc to all forms of confidence in it.

To sum up, is speculation blameworthy? Should exchange controls be imposed to try to provent it?

The basic fact is that if any currency is to perform its function as a means of valuing goods and services and enabling them to be exchanged, it must inspire confidence, both internally and externally. If the mismanagement of the economy arouses doubts about the value of the means of exchange, the holders of a currency have innumerable means of getting rid of it other than by buying a foreign currency. They can buy gold, antiques, pictures, jewellery, house, etc. The effect of this is to diminish the liquid funds available for constructive investment in industry and in other undertakigs which multiply wealth.

India's Gold Reserves

Although hoarding in India is partly due to immemorial custom, partly to the lack of understanding of investment opportunities on the part of the masses, and partly to the burden of taxes which diminishes the rewards of enterprise, there can be little doubt that distrust of the rupee's stability is also an important element. If the Government of India inaugurated policies that enabled people to make money and to keep the rewards of their efforts, and were to launch an educational campaign among the masses explaining how much richer they would be if they switched their savings from gold or silver into capital investment, however modest, which would multiply their ownership of goods and choice of services, the outpouring of hoarded metal might eventually attain such proportions that India would be a net lender of funds abroad from an embarrassing export surplus like that of West Germany.

But before that could happen, New Delhi would have to cure itself of its obsession with "profiteering" and "speculation". One of its first moves should be to follow the postwar example of the governments of Europe by abolishing exchange control. They did not, of course, achieve this overnight, but by a gradual (but quickening) liberalisation of the items subject to exchange control. Nor have the governments of Europe had occasion to regret this course. Europe's postwar recovery was based on it and, temporary crises apart, they have stuck to it. If New Delhi were to adopt the same policy of freeing the exchanges, the rest would follow, because the government would be compelled to manage the economy in such a way as to preserve the value of the rupee. New Delhi is, of course, far from unique in imposing exchange control. Scores of other governments in Asia and South America fail to realise that by exchange and other controls they set up barriers to international trade, which impede their own nationals from creating wealth.

III

The same issue of the French Employers' Bulletin contains an interesting analysis of the distribution of the surpluses of twentysix leading French industrial enterprises between (1) wages and salaries, (2) dividends, and (3) taxes.

A comment made in the annual general meeting of the Ugine Kuhlmann Company which has the second largest wages bill in France, throws light not only on the company's own problems but on the significance of the table that I reproduce below. The chairman said that the serious disturbances of May and June had created a grave imbalance, the extent of which it was as yet too early to assess. The company's efforts in the months to come must concentrate on making up as far as possible for the delays in production due to the strikes. It must increase production and productivity. Moreover, the substantial wage increases authorised by the state would cause (either directly, or indirectly through the effects on the costs of raw materials, services, etc.,) an increase in the company's own costs of production and upset the basis of the company's operations. The causes of the profound deterioration in France's economy in 1967 included the increases in costs and the fall in profit margins, the shortage of labour, concern over price rises and international competition, and governmental administrative interferences.

Although France increased her exports in the third quarter of 1968, the increase was insufficient to re-establish the balance of payments. The main revival in the economy has not so far come from investment but from increased consumption following the pay rises granted to buy off last year's general strike. French costs have risen substantially in relation to those of her foreign competitors. The government is aware that its efforts to enforce price controls and exchange control can only be temporary measures, and is seeking to reduce the budget deficit and to contract credit.

The French Employers' Bulletin ends its review of the current situation with the Delphic observation that the possibility of "a brutal setback" in the economy "must be taken seriously". In other words, keep your fingers crossed against another devaluation of the franc.

DISTRIBUTION OF WAGES, SALARIES, DIVIDENDS AND TAXES OF 26 LEADING FRENCH ENTERPRISES.

(Millions of francs)

	Wages/Salaries	Dividends	Taxes
Saint-Gobain	496	54,7	238,6
Roussel-Uclaf	127	12,8	78,7
Pechiney	199,9	71,4	183,8
Ugine-Kuhlmann	666,2	63,7	420,8
Shell-Francaise et Sell-Berre	219,6	33	106,3
Societe Nationale des Petroles D'aquitaine	153	98,9	122,7
Automobiles Peugeot	741	19	691
Citroen	1071,9	0	783
Simca	497,6	0	310,5
Au Printemps	83,3	15,7	32,5
Prisunic	13,7	4,8	6,1
Compagnie Francaise D'entreprise	74,5	0	16
Lafarge	85	27,8	146,7
CGE	201,4	35,9	202,2
CSF	354,7	0	126,7
Merlin-Gerin	148	3	72,4
Radio-Technique	65,7	11,3	108,2
Inter-Technique	27,9	0,9	20,7
Ferodo	154,6	8,6	57,8
Compagnie Electromecanique	192,8	3,6	125.9
Brissonneau et Lotz	69,2	1,8	33,2
Rateau	46,6	1,1	31,7
Pennaroya	81,7	10	66,6
Le Nickel	114,2	14,5	75
Papeteries Darblay	49,2	2	26,6
Societe Navale Delmas-Vieljeux	92,2	2,7	7,4
Compagnie des Salins du Midi	18,2	2,8	1,6

"Non" Says de Gaulle Again

E. B. BROOK

VIENNA:

THE MOST important long-term development at present is President Nixon's discovery during his short European tour of the strong reluctance of many Europeans to accept the necessity of structural reforms of the international monetary system.

Mr Nixon failed to get anything other than a negative response even to the minimal step of an early distribution of International Monetary Fund Special Drawing Rights. These SDRs were the outcome of the Fund's annual meeting at Rio de Janiero in 1967—an allocation of automatic credit lines which could be used multilaterally and which are intended to serve as reserves in balance of payments difficulties. So far only 60 per cent out of a required 80 per cent of the IMFs 111 members have ratified this scheme.

Although the French might find help in this scheme in defending the existing parity of the franc they have always been cool, if not obstructive, to the idea and have consistently favoured a return to the gold standard. At the Rio conference the French worked in a lot of safety clauses to the agreement, very much with the approval of the Germans. Neither of these countries has changed its attitude in the meantime.

As a result, although the USA—with Britain, one of the proponents of the Special Drawing Rights idea—still hopes officially to get the SDRs going by the end of this year, alternatives will be examined for a negotiated move towards greater exchange rate flexibility.

Probable Development

The most probable development in this line at the moment appears to be a unilateral move, or threat of it, by the United States to suspend the gold backing of foreign-held dollars. This would immediately leave other countries to decide what, if any, parities they would maintain against the dollar. The USA has been confirmed in its impression that the Europeans place unreasonable burdens on the United States in supporting parities and is now likely to act on this conclusion.

International monetary reform will in all probability now be handled in multiple bilateral talks between the major trading countries rather than, as formerly, by the Group of Ten deputies—the procedure adopted for Special Drawing Rights.

The scope of the discussions will be wider than originally designed. Flexible border taxes and interest equalization levies are as likely to be discussed as exchange rate flexibility. Extension of international liquidity and credit facilities, control of foreign direct and portfolio investment, restraints on multinational companies and coordination of domestic stabilization policies will also be considered; all of which suggests that international financial controls and supports will undergo a fairly thorough overhaul with Europe risking the loss of some of its American cover security in the process.

Inside Europe itself the most constructive subject at the present time is the continued movement towards mergers in the continent's car industry. The merger of Fiat with Renault was largely obstructed by the extremely nationalist French government. The French Citroen, however, formed a company four years ago with Germany's NSU, makers of high-powered cars using the Wankel rotary engine which eliminates cylinders, pistons and connecting rods. This Franco-German arrangement is likely to be followed fairly soon by one associating the NSU with the Italian Fiat company.

Meantime, in an auto-merger agreement that could have wide ramifications, a Volkswagen subsidiary, Auto Union, maker of the Audi cars, has linked with the NSU. The latter has also been successful in licensing the Wankel engine for manufacture in many other countries, including some outside Europe.

This merger move could result in getting Europe's two biggest car makers, Fiat and Volkswagen, to discuss co-operation in which case a European car industry alliance could be created not dissimilar in size and influence from the USA's General Motors.

Although at the moment the air is full of rumours that France may, after all, be obliged to devalue the franc and newspapers are featuring the "new bout of gold fever" in Paris it remains uncertain that any devaluation will take place. Whether one likes it or not, what President de Gaulle says in France usually happens there and he is quite reliably reported to have said "non" once again to any idea of devaluation.

Weak Unions

French trade unions are small, weak and often divided and it is very doubtful if they have French public opinion behind them now as they did last May. The French government has decided that a four per cent wage increase in two instalments is all the franc and the economy would stand this year and it is fairly certain that is all the French workers will get.

The wage burden on west European industry is lowest in West Germany, Belgium and Holland. In France it is five per cent heavier, in Britain 10 per cent and in Italy 15 per cent. But, as British experience shows, the cost of wages imperils an economy less than the uncertainty caused by frequent and spasmodic strikes—and in this the British and the Italians carry a much heavier burden than the French.

The principal anxiety to Paris is the increasing trade deficit due to remarkably heavy purchases abroad, despite restrictions on the purchase of cars, textiles and household goods from other countries and in spite of measures to assist exports. France has, in fact, more to fear from the activities of its middle class citizens than from its workers in the economic field. The same hoarding instinct that traditionally makes them stock up gold coins is now inducing them to buy commodities far in excess of current needs or the possibility even to use them. De Gaulle's principal task is not so much to maintain order as to calm petit bourgeois fears.

The moving finger writes

THE PRIME Minister's address to the 42nd annual session of the Federation of Indian Chambers of Commerce and Industry last week, I was sorry to note, started on a graceless note. She said that she had some hesitation in accepting the invitation to inaugurate the session since she had a feeling that these meetings of the Federation were becoming merely sessions for ventilating complaints. If the august lady, nevertheless, did decide ultimately to honour the Federation by attending its session and addressing it, it was because, said Mrs Gandhi, she did attach importance to co-operation between the business community and the government and felt that this annual session of the Federation might be a renewed opportunity for bringing greater understanding and purposeful co-operation between the government and industry.

I confess I find this patronising pose taken up by the Prime Minister singularly irritating. Perhaps Mrs Gandhi was right in a way in implying that the Prime Minister addressing the Federation had become a ritual which was apt to be annoying. But then it is a ritual which both the government and the business community have worked themselves into and the annoyance certainly could be mutual. This does not mean that the Prime Minister is doing a favour to the business community by sparing some of her no doubt precious time for speaking or listening to it just as the business community is not conferring any benefit on her by inviting the Prime Minister to address it. Thus, exchanges of ideas or even words do have a place in the democratic processes of government and just as Mrs Gandhi, in her capacity as the Prime Minister of the central government, finds it necessary to go through so many public engagements of varying degrees of importance, she could easily have taken the inaugural session of the Federation in her stride without making such a pointless fuss about it.

* *

I suppose that even Mrs Gandhi would have found some pleasure in at least one part of the proceedings of the inaugural session of the Federation. This was when she was requested to present awards, instituted by the Federation, to three companies and three individuals for their meritorious performances in various creative fields of national significance. The Jay Shree Tea and Industries Limited (which, incidentally, belongs to the Birla group), received the award for agriculture on the strength of the highest yield per acre of tea in one of its tea gardens on the Anamalai Hills in Tamil Nadu. The citation referred to the estate concerned having achieved the highest yield in the country. It seems to be also true that the record set by the Kallayar Estate (which is the tea garden in question), is also an international record.

Another interesting award went to Mukand Iron and Steel Works Limited, Bombay, for outstanding performance in the export trade, the exports of this company having increased both steadily and spectacularly from year to year. The New Central Jute Mills Limited, Calcutta, won an award for pioneering work in promoting family planning in the neighbourhood of its factory as well as among its workers.

Three more awards went to individuals, with Messrs Godrej and Boyce Manufacturing Company, Bombay, scoring a "double". I hope I am not offending any of the Prime Minister's sensibilities when I say that, as a woman, she might perhaps have found particular satisfaction in the fact that one of the Godrej "twins" happened to be of her own sex. Mrs Aloo Mowdawalla received an award for the excellence of her work in spreading family planning among the employees of her company, while Mr K. N. Naoroji was given the award for his contribution to the maintenance of good industrial relations in his company. The remaining award, which was for research in science and technology, went to Mr S. C. Gupta, Director, National Sugar Institute, Kanpur, for his important contribution to import substitution by evolving a process which eliminates the use of sulphur in the manufacture of white, crystal sugar.

Before leaving the subject of the FICCI award, I would suggest that the Executive Committee of the Federation may consider instituting an award also for excellence in economic journalism. This, in my view, would be consistent with the basic purposes and the general scheme of the awards already instituted. I may add that I would have no objection to annual awards also being given to the Member of Parliament who has done most during the year for promoting the cause of industry and trade or for the minister (including the Prime Minister, or chief ministers) of the central or state governments who has contributed most for the industrialisation of the country.

In case it so happens that the new awards suggested here are instituted and that the Prime Minister happens to win one of them, it would become necessary, of course, to invite the President of India to present the award to this particular winner—in which case the President may also be requested to inaugurate the session, thereby sparing Mrs Gandhi the mental conflict to which she has confessed. The President's speech, on a formal occasion like this, will, of course, be a statement made on behalf of the Government of India, which would mean that the Prime Minister would still be able to get her words and thoughts into the address without having to go through the job, which she seems to find irksome, of personally delivering it after listening to the President of the Federation ventilating such complaints as the business community may have against government policies.

* *

I was one of those who had felt at the time that the Chief Minister of Maharashtra should have submitted the resignation of his Ministry as atonement for the failure of his administration to protect the law-abiding citizens of Greater Bombay from the violence of Shiv Sena gangs for days on end. I also felt—and I still feel—that the police chief—if not also some of his key lieutenants—ought to have had some penalties imposed on him as much for the unpreparedness of his establishment for the Shiv Sena outbreak as for its ineffectiveness in dealing promptly with the storm when it did break out.

As against this, it is some satisfaction to me that the executive of the Maharashtra Pradesh Congress Committee has at least thought it necessary to come out in outright condemnation of the Shiv Sena and all that it stands for. I am, however, rather troubled by the remark attributed to Mr Y. B. Chavan (who was present at the relevant meeting of the MPCC) that the Shiv Sena represented an "ideological danger" which had to be fought at the ideological level. If this is how Mr Chavan feels about it, he ought to give up his place in the union cabinet and go to Bombay to lead an ideological crusade against the Shiv Sena. As the Home Minister of the Government of India, his present and primary duty is simply to deal with this violent movement as a threat to law and order and, therefore, calling for police action, both preventive and punitive. That Mr Chavan's attitude was not too clear on this point for most of the period when certain sections of the people of Bombay were being held to ransom by what he himself had castigated at one time as a "pernicious, fascist movement", was one of the more perturbing elements of that tragic occasion.

V.B.

THE UNITED COMMERCIAL BANK LIMITED

Registered Office: 10, BRABOURNE ROAD, CALCUTTA-1.

Report of the Directors

The Directors have pleasure in submitting to the Shareholders their Twentysixth Annual Report and Balance Sheet and Profit & Loss Account of the Bank for the year ended 31st December, 1968.

The net profit for the year, after providing for taxes and for all known and anticipated charges, and including Rs. 1,91,267=94 brought forward from the previous account amounts to Rs. 85,30,983=67

An interim dividend was paid at the rate of 6 per cent, subject to deduction of tax, which absorbed Rs. 16,80,000/-. The Directors have transferred Rs. 17,00,000/- to the Reserve Fund, Rs. 22,40,000/- to Special Reserve and appropriated Rs. 28,50,000/- for Bonus to staff leaving an unappropriated balance of Rs. 60,983=67 to be carried forward.

The Directors recommend the payment of a final dividend at the rate of 8 per cent, subject to deduction of tax, making 14 per cent for the year which will be paid out of the Special Reserve and which will absorb Rs. 22,40,000/-.

The Bank's business during the year showed satisfactory progress.

As against 28 branches opened in 1967, during the year under review 47 branches were opened in India, 26 at banked centres and 21 at unbanked centres. At the end of 1968 the total number of branches stood at 323—253 in banked centres and 61 in unbanked centres in India—and 9 in foreign countries.

During the year the Bank participated in the formation of the State Bank of Sikkim sponsored by the Government of Sikkim by subscribing to 20 per cent of its capital. Under the collaboration arrangement, one Director is to be nominated by our Bank and the Managing Director of the State Bank of Sikkim has been appointed with the consent of the Bank.

During the year, the Agricultural Finance Corporation Ltd was formed by commercial banks, with an authorised capital of Rs 100 crores and a subscribed capital of Rs 10 crores, to participate actively and extensively in the development of agriculture. The Bank has subscribed to the capital of the Corporation to the extent of 775 shares of Rs. 10,000/- each on which half the amount has been called up and paid.

Mr Y. N. Mafatlal and Mr. M. Nopany resigned from the membership of the Board during the year. The Board has accepted with regret their decision to retire and wish to place on record their deep appreciation of the very valuable guidance and counsel given by them during their period of office.

Under Article 86 of the Bank's Articles of Association Mr. C. S. Pande has been appointed as a Director to fill up the vacancy caused by the resignation of Mr. M. Nopany.

Under Article 92 of the Bank's Articles of Association Mr. Shrenik Kasturbhai, Mr. R. N. Bangur, Mr. S. T. Sadasivan and Dr. R. R. Hattiangadi retire by rotation, and, being eligible, offer themselves for re-appointment.

The Banking Laws (Amendment) Act, 1968 for providing for the extension of social control over banks came into force with effect from 1st February, 1969. For the purpose of Section 20 of the Banking Regulation Act, 1949 as amended, Advisers and members of Advisory Committees are considered as Directors. Consequently a number of Advisers have resigned their membership of the Local Advisory Committees. As a result of these resignations, some of these Committees stand dissolved. The Directors express their gratitude to the Bank's Advisers and Advisory Committees for their valuable help and guidance and place on record their deep appreciation of the role played by them in the development of Bank's business. The Bank proposes to reconstitute such Committees in order to secure local patronage and guidance.

The Directors have also to report to you changes in the general management of the Bank. Mr. S. K. Pandya, Mr K. R. K. Iyengar, Deputy General Managers and Mr. L. R. Suneja, Assistant General Manager retired from the Bank's service during the year. The Directors place on record their appreciation of the valuable services and outstanding contribution made by them to the progress of the Bank during the long period of their service. Mr S. J. Utamsing has been appointed as the General Manager and Mr. V. R. Desai and Mr. D. P. Sarin have been promoted as Deputy General Managers.

The Directors desire to record with appreciation and gratitude the sustained support the Bank has received from its shareholders, depositors and clients alike in its progress.

The Directors also place on record their appreciation of the services of the General Manager and the Officers and Staff of the Bank during the year.

The Shareholders are requested to appoint Auditors for the current year and to fix their remuneration. Under Section 30(1A) of the Banking Regulation Act, 1949 every banking company is required to obtain the previous approval of the Reserve Bank of India before appointing Auditors. An application has been made to the Reserve Bank of India under the said Section seeking its approval to the re-appointment of the retiring Auditors.

Calcutta,
8th March, 1969.

R. B. SHAH
Chairman.

The United Commercial

Balance Sheet as

CAPITAL AND LIABILITIES	Dec. 31, 1968		Dec. 31, 1967	
	Rs. P.	Rs. P.	Rs.	Rs.
1. **CAPITAL:**				
Authorised Capital: 8,00,000 shares of Rs. 100 each ...	8,00,00,000 00		8,00,00,000	
Issued Capital : 6,00,000 shares of Rs. 100 each ...	6,00,00,000 00		6,00,00,000	
Subscribed Capital: 5,60,000 shares of Rs. 100 each ...	5,60,00,000 00		5,60,00,000	
Amount Called up: 5,60,000 shares at Rs. 50 per share		2,80,00,000 00		2,80,00,000
2. **RESERVE FUND AND OTHER RESERVES:**				
(a) Reserve Fund	3,66,50,000 00		3,49,50,000	
(b) Share Premium Account	40,00,000 00		40,00,000	
(c) Special Reserve	22,40,000 00		22,40,000	
(d) Development Rebate Reserve	9,10,000 00	4,38,00,000 00	9,10,000	4,21,00,000
3. **DEPOSITS AND OTHER ACCOUNTS:**				
Fixed Deposits	1,22,62,63,621 53		1,07,98,14,682	
Savings Bank Deposits	45,16,76,230 32		39,15,70,248	
Current Accounts, Contingency Accounts, etc. ..	72,78,74,117 02	2,40,58,13,968 87	67,99,87,573	2,15,13,72,503
4. **BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC.:**				
(i) In India	3,45,49,476 40		3,86,96,715	
[Includes borrowing from Industrial Development Bank of India of Rs. 3,10,34,476=40 (Previous year—Rs. 3,70,61,715=12) and from Agricultural Refinance Corporation of Rs. 20,65,000=00 (Previous year—Rs. 15,00,000=00)]				
(ii) Outside India	97,43,715 48	4,42,93,191 88	27,34,532	4,14,31,247
PARTICULARS:				
(i) Secured by part of Investments and Advances per contra	3,37,49,476 40		3,86,96,715	
(ii) Unsecured	1,05,43,715 48		27,34,532	
	4,42,93,191 88		4,14,31,247	
Carried over ...		2,52,19,07,160 75		2,26,29,03,750

Bank, Limited

at 31st December, 1968

PROPERTY AND ASSETS		Dec 31, 1968 Rs. P.	Dec 31, 1968 Rs. P.	Dec 31, 1967 Rs.	Dec 31, 1967 Rs.
1 **CASH**					
In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes)		18,70,51,676 52			18,90,72,643
2 **BALANCES WITH OTHER BANKS:**					
On current account:					
(i) In India	Rs. 54,04,442 99			75,67,430	
(ii) Outside India	Rs. 6,18,37,762 18	6,72,42,205 17	25,42,93,881 69	5,81,16,577	6,56,84,007
3 **MONEY AT CALL AND SHORT NOTICE**			6,93,45,700 00		5,80,62,350
			32,36,39,581 69		31,28,19,000
4. **INVESTMENTS:** (at below market value)					
(i) Securities of the Central and State Governments and other Trustee Securities, including Treasury Bills of the Central and State Governments		72,97,16,395 94		60,30,43,877	
(ii) Shares:					
(a) Fully Paid Preference Shares		7,24,212 50		2,35,893	
(b) Fully Paid Ordinary Shares ..		66,71,619 70		56,44,228	
(c) Partly Paid Ordinary Shares		30,36,872 50		1,45,375	
(iii) Debentures or Bonds: ...		54,98,665 00		40,98,665	
(iv) Other Investments:					
(a) Securities of Foreign Governments and Foreign Trustee Securities		2,56,66,504 35		1,05,92,854	
(b) Unit Trust of India (Initial Capital)		4,50,000 00		4,50,000	
(v) Gold . ..			77,17,64,269 99		62,42,10,892
5 **ADVANCES:**					
(Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors)					
(I) Loans, Cash Credits, Overdrafts, etc					
(i) In India	Rs 95,62,59,794 93			92,38,91,462	
[Includes Rs. 3,77,64,476=40 (Previous Year Rs. 4,32,91,715=12) and Rs. 21,65,000=00 (Previous Year—Rs. 15,00,000=00) relating to medium-term advances in respect of which finance has been obtained from Industrial Development Bank of India and Agricultural Refinance Corporation respectively as per contra.]					
(ii) Outside India	Rs 9,51,69,922 67			8,84,96,972	
		'05,14,29,717 60		1,01,23,88,434	
(II) Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments)					
(i) Payable in India	Rs 27,04,98,729 88			26,04,03,266	
[Includes an amount of Rs. Nil (Previous Year—Rs. 1,75,00,000=00) of Usance Promissory Notes lodged with Reserve Bank of India for advances under Section 17 (4) (c) of The Reserve Bank of India Act.]					
(ii) Payable outside India	Rs. 11,80,62,369 61			9,42,22,454	
		38,85,61,099 49	1,43,99,90,817 09	35,46,25,720	1,36,70,14,154
Carried over ..			2,53,53,94,668 77		2,30,40,44,046

The United Commercial

Balance Sheet as

CAPITAL AND LIABILITIES		Dec. 31, 1968		Dec. 31, 1967	
		Rs. P.	Rs. P.	Rs.	Rs.
Brought forward ...			2,52,19,07,160 75		2,26,29,03,750
5. BILLS PAYABLE			3,62,76,975 27		2,81,33,579
6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE as per contra:					
(i) Payable in India		18,56,26,729 63		17,41,83,198	
(ii) Payable outside India		5,87,93,471 21	24,44,20,200 84	5,59,17,278	23,01,00,476
7. OTHER LIABILITIES					
(i) Branch adjustments		5,43,46,462 17		7,03,90,509	
(ii) Unclaimed Dividends etc.		32,44,926 43	5,75,91,388 60	27,30,194	7,31,20,703
8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra:			21,11,07,336 40		26,34,01,769
9. PROFIT AND LOSS:					
Profit as per last Balance-Sheet		1,91,267 94		3,41,973	
Add Profit for the year subject to bonus ...		83,39,715 73		85,89,295	
		85,30,983 67		89,31,268	
Less Appropriations made:					
To Reserve Fund	Rs 17,00,000 00			18,20,000	
To Interim Dividend	Rs. 16,80,000 00			16,80,000	
To Special Reserve	Rs. 22,40,000 00			22,40,000	
To Bonus to staff	Rs. 28,50,000 00			30,00,000	
		84,70,000 00	60,983 67	87,40,000	1,91,268
Carried over ...			3,07,13,64,045 53		2,85,78,81,545

Bank, Limited

at 31st December, 1968

PROPERTY AND ASSETS	Dec. 31, 1968 Rs. P.	Rs. P.	Dec. 31, 1967 Rs.	Rs.
Brought forward .		2,53,53,94,668 77		2,30,40,44,046
PARTICULARS OF ADVANCES:				
(i) Debts considered good in respect of which the banking company is fully secured	1,10,30,44,830 36		1,07,43,05,610	
(ii) Debts considered good for which the banking company holds no other security than the debtors' personal security	14,07,18,049 26		11,40,10,821	
(iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	19,62,27,937 47		17,86,97,723	
(iv) Debts considered doubtful or bad, not provided for	Nil		Nil	
	1,43,99,90,817 09		1,36,70,14,154	
(v) Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons	7,01,681 31		10,19,483	
(vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members	7,30,63,004 57		18,06,53,832	
(vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons	11,93,602 24		10,69,315	
(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members	18,93,71,810 94		22,27,89,116	
(ix) Due from banking companies	55,53,316 60		75,38,679	
6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra:				
(i) Payable in India	18,56,26,729 63		17,41,83,198	
(ii) Payable outside India	5,87,93,471 21		5,59,17,278	
		24,44,20,200 84		23,01,00,476
Carried over ...		2,77,98,14,869 61		2,53,41,44,522

The United Commercial

Balance Sheet as

CAPITAL AND LIABILITIES			Dec. 31, 1968				Dec. 31, 1967	
			Rs.	P.	Rs.	P.	Rs.	Rs.
Brought forward ...					3,07,13,64,045	53		2,85,78,51,545
10. CONTINGENT LIABILITIES :								
(i) On Partly Paid shares	Rs.	45,06,517 50						
(ii) Claims against the banking company not acknowledged as debts	Rs.	16,54,235 83						
(iii) Guarantees given on behalf of customers and Correspondent Banks	Rs.	63,11,18,533 83						
(iv) Bills of Exchange Rediscounted (including Rs. 2,09,73,824=10 with the Industrial Development Bank of India)	Rs.	2,14,23,278 44						
(v) Forward Exchange Contracts outstanding for the purchase and sale of Bills and Telegraphic Transfers of which up to 28-2-1969 Rs. 5,13,71,501=89 have been delivered.	Rs.	26,57,13,075 29						
Total Rs. ...					3,07,13,64,045	53		2,85,78,51,545

Notes: (1) There is a liability for outstanding bills, not certified by the architects, in respect of the Bank's buildings.

(2) Provision in full for gratuity accruing on retirement of staff has not been made.

(3) The Income-tax assessments in India for the years 1949 to 1958 have been reopened as the Income-tax Officer has differed with the method adopted in the past by the Department for allowing Double Income-tax Relief. Tax liability for the years 1959 to 1963 have been calculated by him according to the new method. The Bank has disputed the action of the Income-tax Officer. No provision has been made in the accounts in respect of the demand for reopened assessments which may ultimately be fixed by the Department. Tax provisions for the years 1964 to 1968 have been made on the basis adopted all along in the past and previously accepted by the Department.

(4) No further information was available during the year about the assets and liabilities in Pakistan as on 27th August 1965, hence they are incorporated in the Balance Sheet at their net book value.

Bank, Limited

at 31st December, 1968

PROPERTY AND ASSETS		Dec. 31,1968		Dec. 31, 1967	
		Rs. P.	Rs. P.	Rs.	Rs.
Brought forward .			2,77,98,14,869 61		2,53,41,44,552
7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra			21,11,07,336 40		26,34,01,769
8. PREMISES LESS DEPRECIATION:					
Cost as per last balance-sheet		2,50,60,576 85		2,45,12,467	
Additions (Rs. 31,10,415=67) Less deductions (Rs. Nil) during the year		31,10,415 67		5,48,110	
		2,81,70,992 52		2,50,60,577	
Less depreciation written off to date ...		35,83,497 14	2,45,87,495 38	31,40,634	2,19,19,943
9. FURNITURE AND FIXTURES LESS DEPRECIATION: (including vehicles and equipment)					
Cost as per last balance -sheet		3,29,59,364 57		2,74,66,545	
Additions (Rs. 62,79,493=83) Less deductions (Rs. 2,69,667=23) during the year		60,09,826 60		54,92,820	
		3,89,69,191 17		3,29,59,365	
Less depreciation written off to date ...		1,78,18,486 94	2,11,50,704 23	1,53,15,561	1,76,43,804
10. OTHER ASSETS, INCLUDING SILVER:					
(i) Land and Buildings:					
Cost as per last balance-sheet	Rs.. 44,34,906 45			19,41,816	
Additions (Rs. 21,91,871=07) Less deductions (Rs. Nil) during the year	Rs. 21,91,871 07			24,93,091	
	Rs. 66,26,777 52			44,34,907	
Less Transfer to Premises account	Rs. 24,04,623 71			...	
		42,22,153 81		44,34,907	
(ii) Interest accrued on Investments . .		82,98,818 35		59,83,824	
(iii) Advance payment of Income-tax after set off of amounts on assessments under Section 140A		2,12,58,796 10		98,03,445	
(iv) Stamps and Stationery		1,12,143 10		99,928	
(v) Silver		...		...	
			3,38,91,911 36		2,03,22,104
11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS:					
Land and Buildings (at cost)			8,11,728 55		4,19,403
12. PROFIT AND LOSS			...		...
Total Rs. ...			3,07,13,64,045 53		2,85,78,51,545

The United Commercial

Balance Sheet as

EXPENDITURE	Year ended Dec. 31, 1968		Year ended Dec. 31, 1967
	Rs.	p.	Rs
1. Interest paid on deposits, borrowings, etc.	7,73,70,214	52	7,16,23,028
2. Salaries and allowances and Provident Fund	5,29,11,602	65	4,58,36,594
3. Directors' (Rs. 72,000) and Local Committee members' fees and allowances	1,03,550	00	1,05,690
4. Rent, Taxes, Insurance, Lighting, etc.	65,47,418	86	57,85,775
5. Law charges	1,28,775	92	1,03,542
6. Postage, Telegrams and Stamps	26,54,506	18	22,18,764
7. Auditors' fees for statutory and periodical audits	2,65,148	06	2,54,351
8 Depreciation on, and repairs to, the Banking Company's property	34,24,092	80	27,95,850
9. Stationery, Printing, Advertisement, etc.	46,87,402	66	40,06,013
10. Loss from sale of, or dealing with, non-banking assets	...		...
11. Other Expenditure	65,91,561	77	57,18,973
12. Balance of Profit subject to bonus	83,39,715	73	85,89,295
Note: Particulars of total remuneration Rs. 94,205=00 relating to the Chairman (Chief Executive Officer):— (i) Salary Rs. 72,000 (ii) Allowances Rs. 6,000 (iii) Contribution to the Provident Fund Rs. 6,000 (iv) Monetary Value of Perquisites (Free Quarters, Motor Car and Medical Aid) Rs. 10,205=00.			
Total Rs.	16,30,23,989	43	14,70,37,875

The above Accounts have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949.

R. B. SHAH
Chairman

M. P. BIRLA	T. S. RAJAM	SHRENIK KASTURBHAI
R. N. BANGUR	S. T. SADASIVAN	R. R. HATTIANGADI
A. C. MITRA	R. N. SEN	RAGHUNATH SINGH
LALA RAVI S. RAMSARNDAS	C. D. SHAH	C. S. PANDE
Directors	Directors	Directors

Bank, Limited

at 31st December, 1968

INCOME	(Less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	Year ended Dec. 31, 1968	Year ended Dec. 31, 1967
		Rs. p.	Rs
1.	Interest and Discount	13,18,78,750 93	11,59,58,043
2.	Commission, Exchange and Brokerage	2,93,14,260 14	2,92,65,611
3.	Rents	18,06,931 74	18,14,171
4.	Net profit on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	...	...
5.	Net profit on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	...	...
6.	Income from non-banking assets and profit from sale of, or dealing with, such assets	24,046 62	50
7.	Other receipts	...	...
8.	Loss	...	...
	Total Rs.	16,30,23,989 43	14,70,37,875

S. SUBRAHMANYAN
Chief Accountant

S. J. UTAMSING
General Manager

As per our report annexed.
G. P. KAPADIA & CO.
K. N. GUTGUTIA & CO.
RAY & RAY
Chartered Accountants

Calcutta,
8th March, 1969.

REPORT OF THE AUDITORS

TO THE MEMBERS OF THE UNITED COMMERCIAL BANK LIMITED

We have audited the attached Balance-sheet of the United Commercial Bank, Limited, as at 31st December, 1968, and the Profit and Loss Account of the Bank for the year ended upon that date, annexed thereto, in which are incorporated Branch returns, except of Karachi Branch, audited by Statutory or other Auditors and certified returns of Karachi Branch as of 27th August, 1965 (vide Note 4 to the Balance-sheet) for which exemption from provisions of Sec. 228 of Companies Act, 1956 has been obtained from the Central Government under clause (1) (d) of Rule 4 of the Companies (Branch Audit Exemption) Rules, 1961. The reports on the accounts of the Branches audited by other Auditors have been forwarded to us and dealt with in preparing our report in the manner considered necessary by us.

We report that:

(a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;

(b) the transactions of the Bank which have come to our notice have been within the powers of the Bank;

(c) in our opinion, proper books of account, as required by law, have been kept by the Bank so far as appears from our examination of those books, and proper returns adequate for the purpose of our audit have been received from the Branches of the Bank;

(d) the Bank's Balance-sheet and Profit and Loss Account, dealt with by this report, are in agreement with the books of account and the returns;

(e) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required for banking companies and, on such basis, the said Balance-sheet gives a true and fair view of the state of the affairs of the Bank as at 31st December, 1968, and the Profit and Loss Account gives a true and fair view of the profit for the year ended upon that date.

Calcutta,
8th March, 1969.

G. P. KAPADIA & CO.
K. N. GUTGUTIA & CO.
RAY & RAY
Chartered Accountants

COMPANY MEETINGS

THE UNITED COMMERCIAL BANK LIMITED

Statement of the Chairman, Mr. R. B. Shah

The Annual General Meeting of the Shareholders of the United Commercial Bank Ltd., will be held at the Registered Office of the Bank at 10, Brabourne Road, Calcutta, on Wednesday the 9th April, 1969 at 4 P. M. The following is the full Statement by the Bank's Chairman, Mr. R. B. Shah, circulated to the Shareholders with the Directors' Report and Accounts for the year ended 31st December, 1968.

During the course of 1968 the Silver Jubilee of the United Commercial Bank was celebrated in the major centres in which it operates. You may recall that the first of the functions relating to this event was held in Calcutta last year with, appropriately, Mr G. D. Birla presiding. At other centres, we were fortunate in enlisting the support of the outstanding personalities and personages who graced the functions with their presence. To them as also to the constituents and friends of the Bank who, in participating in these celebrations, offered evidence of their good-will, I must first express my gratitude.

The Silver Jubilee Year of Ucobank was, coincidentally enough, the year in which the Board was reconstituted so as to conform to the stipulations in this regard under the then Banking Laws (Amendment) Bill. Since my last report to you, Mr Yogindra N. Mafatlal and Mr Mohanlal Nopany retired from the Board and I would like to place on record our appreciation of their wise counsel and guidance. It should also be recorded here that the houses of Mafatlal and Nopany have been associated with Ucobank since its very inception, and that they have greatly assisted in the development and progress of this institution; and I am sure that this abiding association will continue. The Board also welcomed during the year Mr C. S. Pande, Secretary-General of the Indian Chamber of Commerce, Calcutta, who was appointed a member in June 1968.

DEPOSITS

The deposit growth of commercial banks was maintained during the year under review. Deposit resources of your Bank rose from Rs 215.14 crores to Rs 240.58 crores, an increase of nearly 12 per cent that compares favourably with the experience of commercial banks taken as a whole. Increases have occurred under all relevant heads, though I should add that the rate of growth in Savings Deposits has, as has been the case with the banking system generally, slowed down. Possibly this is because there is a tendency on the part of depositors to take advantage of the higher rate of interest available on time deposits—Ucobank's Fixed Deposits rose by Rs 14.65 crores against Rs 12.19 crores in 1967.

LIQUID ASSETS AND LIQUIDITY RATIO

The liquid assets of the Bank, as constituted by Cash in Hand, Balance with Banks and Money at Call and Short Notice, amounted to Rs 32.36 crores representing 13.4 per cent of deposits as against Rs 31.28 crores (14.5 per cent) at the end of the previous year. The liquidity ratio as such as comprised by Cash in Hand and bank balances, Money at Call and Short Notice and unencumbered Government securities was higher at 43. 7 per cent against just under 43 per cent last year. Your Bank, in common with other commercial banks, made considerable additions to gilt-edged holdings for reasons which I shall later be stating at length

INVESTMENTS

The investments of the Bank increased by Rs 14.75 crores, with the bulk, or Rs 12.67 crores, being under the head of Central and State Government securities, including Treasury Bills.

ADVANCES & BILLS

Although expansion in bank credit reached record proportions in the 1967-68 busy season, credit conditions were generally easy during last year. Indeed, I may mention, in this context, that in the case of your Bank the credit ratio consistently hovered at a level lower than normally is the case. It is clear that the busy season expansion of commercial banks as a whole was mainly due to the advances for food procurement extended by the State Bank of India and its subsidiaries. Hence, in the case of Ucobank, for the second year in succession, the rate of increase in advances slackened. Advances, including bills purchased, rose only by Rs 7.30 crores against Rs 9.07 crores in the previous year and as much as Rs 25 crores in 1966. In the light of the satisfactory and substantial accrual of new deposits, the credit ratio inescapably declined to 60 per cent at the end of 1968 as compared to 64 per cent at the end of the previous year. This trend of reduction in the credit ratio in recent years, from 70 per cent at the end of 1965 to 60 per cent at the end of 1968, would obviously be reflected in a slower growth in operating income.

PROFIT & LOSS ACCOUNT

As just noted, there was a reduction in the proportion of higher earning assets. Accordingly, in order to ensure that there was remunerative utilisation of resources, the Bank increased its holdings of gilt-edged, but the increased earnings therefrom could scarcely match what would have been fetched by an expansion in credit. Since, however, there simultaneously continued to be an increase in the operating costs, the profit of the Bank inevitably showed some slight erosion. Moreover, Ucobank, in compliance with the official objective of spreading the banking habit, opened 47 branches against 28 in 1967. Such accelerated programme of branch expansion and normal increments were responsible for an increase of Rs 71 lacs in Salaries and Allowances, while the larger accretion of time deposits caused a rise of Rs 57 lacs in Interest Paid on Deposits. The working results of the Ucobank also for 1968 were conditioned, as I shall have cause later to point out, by extension of social control over banks as also by directives that, as consequential measures, the Reserve Bank issued to the banking system. The profit of the Bank is placed at Rs 83.40 lacs against Rs 85.89 lacs. The total reserves of the Bank stand augmented at Rs 4.38 crores with the transfer of Rs 17 lacs to the Reserve Fund and Rs 22.40 lacs to the Special Reserve for payment of dividend.

PRIORITY SECTOR ADVANCES

I should like to introduce here a paragraph on the operations of the Bank which are not readily to be seen in the accounts, though they form an integral part of them. In particular, the achieving of targets of lending under social control, or the progress towards them, needs to be observed. Thus, in the field of exports, limits sanctioned for packing and post-

shipment finance have risen during the year by Rs 5 crores to Rs 12 crores. This of course is in addition to the regular purchase of export bills. In the case of agriculture, sanctioned limits have now reached a level of Rs 1.20 crores. After the end of the year under review, a further sum of Rs 46 lacs has been sanctioned for energising of wells in Gujarat. These agricultural advances are under the category of assistance to the priority sector, but it may be noted that the Bank's traditional line of credit to plantations, amounting to Rs 6 crores, continues to be extended. In particular, it is heartening that, in the flood-affected districts of Bulsar and Navsari, Ucobank was able, in a brief period of a month, to extend Rs 5 lacs as loans direct to some 240 agriculturists. I should also mention the special assistance which was extended by Ucobank in the flood-riven districts of Surat in the West and Jalpaiguri in the East to the extent of some Rs 60 lacs. Such assistance went direct to small traders and industrialists. Thirdly, sanctions for loans to small industry had been built up by the end of 1968 to over Rs 12 crores. Lastly while on the subject of priority sector loans, I think the Bank's responsibility for assisting its own staff may usefully be considered at this stage. Ucobank offers loans to staff for acquisition of motor cars, scooters and cycles as also for purchase and construction of houses. Loans sanctioned under the latter head had amounted by the end of 1968 to Rs 1.24 crores, a not inconsiderable sum. Such financial assistance for meeting the personal needs of individuals, especially for purchase of durable consumer goods, is now also available to the Bank's constituents.

STAFF

As I had mentioned last year, it was loyalty and hard work of the staff of Ucobank past and present, which had contributed not a little to the giant stride that the Bank has been able to take in its first 25 years. In recognition of such services, Ucobank paid the Bank's staff last year a special bonus which, in the aggregate, called for a distribution of over Rs 10 lacs. Such distribution has to be seen in the light of the already discernible erosion in profits. I had thought that, despite the trend of the declining bank profitability, a special occasion like Silver Jubilee should be suitably observed by payment of such bonus. But it should be clear that such a bonus, as paid last year, cannot and should not form part of the normal bonus to be paid on Bank's working. This obviously would have to bear a relation to the profits generated in each year by each individual bank. I am sure that Bank staff will realise the logic of this argument and continue to give their best to the organisation in enabling it to meet the challenges of future years. In particular, I look forward to receiving from the staff the cooperation, that it has so readily extended in the past, in assisting in the smooth functioning of our Organisation and Methods Division by offering their own suggestions and implementing programmes for improving efficiency and productivity.

A beginning has been made, already, towards decentralisation of duties and responsibilities by appointment of Area Managers who would now be guiding the Managers of branches in their respective areas with a view to development of business and toning up of internal routine. It is proposed to make some further appointments of Area Managers in due course. In the same way, with the increase in the number of branches, and with, perhaps, the need for more autonomous functioning within particular zones, it may become necessary to appoint more Regional Managers, carrying with them a larger responsibility for the regions under their care and guidance.

Lastly on staff matters I should take this opportunity to refer to the retirement during last year of Mr S. K. Pandya and Mr K. R. K. Iyengar, Deputy General Managers, and Mr L. R. Suneja, Assistant General Manager. These three senior executives had assisted loyally and efficiently in the development of the Bank's business during their long association, and I would record here our high appreciation of their services. Since then, Mr S. J. Utamsing has been appointed General Manager; Mr V. R. Desai and Mr D. P. Sarin have become Deputy General Managers; and Mr S. Subrahmanyan has assumed charge as Chief Accountant. The incumbency of such posts of responsibility by younger blood with long experience with the Bank may be expected, I am confident, to imbue the operations of Ucobank with a new sense of dynamism.

ECONOMIC REVIEW

For a second successive year India had the benefit of a satisfactory set of foodgrains crops. Indeed, at one stage, in the granary of India comprised by Punjab and Haryana, deliveries of wheat by agriculturists posed a serious problem of storage and transport. The break-through in agriculture or the emergence of the green revolution can now be confirmed as having taken place. For, the gains in agricultural production of the last two years are to be ascribed to three or four specific factors. Firstly, there is a range of new agricultural inputs such as pesticides, better seeds hybrid varieties, high yielding varieties and fertilizers which are being increasingly produced or made available. Secondly, over and above the role in agriculture of the major and minor irrigation works, we have had the emergence of a particular concentration of interest in the harnessing of sub-soil water. More and more shallow and deep tube wells are being sunk, and more and more of these wells are being energised. Thirdly, there is also the fact that India has begun to produce varieties of agricultural implements and equipment. Lastly, the farmer himself in full knowledge of the prosperity that the adoption of this new strategy will bring to him, is being enabled to make increasing use of this potential by greater availability of financial resources. In brief, India is no longer wholly at the mercy of the monsoons.

The satisfactory crops withal, with a view to ensuring more than merely short term stability in the prices of agricultural products, Government decided upon continuance of foodgrains imports on a massive scale for the third year in succession. However, the quantum has been reduced from 10.4 million tonnes in 1966 to 8.7 million tonnes and 5.7 million tonnes in 1967 and 1968 respectively. Meantime, within the country, food procurement was stepped up in order to build up buffer stocks for what I may call equalisation of prices over a cycle of years. It has been estimated that, at the end of 1968, aggregate stocks of foodgrains with Government would be of the order of 3.5 million tonnes and by the end of June 1969 the level of such stocks, it is anticipated, will rise to 5 million tonnes. Thus, given foodgrains production at a level around 95.6 million tonnes and continuing imports, India experienced in 1968 for the first time in years the phenomenon of relative stability in prices. During 1968, the index number of wholesale prices moved within narrow confines.

The fact that there was a second successive satisfactory crop year was responsible, as I had suggested in my speech last year, for the generation of demand for consumer goods other than merely cotton textiles from the newly emergent consumer, the rural dweller. This in turn led to a revival in industrial production in the second half of 1968-69. Were it not for a disastrously small raw jute crop, the indices of industrial production would have recorded an even more gratifying increase.

The Economic Survey for 1968-69 makes the point that, despite the recessionary trends since, say, 1966, there have been a number of industries which "continued to grow at fairly rapid rates even during these years." The examples cited are electricity generation, refining of petroleum, basic industrial chemicals and fertilizers. However, the highlight of the year past is that the recessionary forces themselves are seen to be on their way out. Industrial production had risen at over 8 per cent per annum from 1961 to 1964. The recession evidenced itself in the growth rate declining to 1 per cent in 1966 and in output actually declining in 1967. It is now anticipated that the rate of growth of industrial output in 1968 will be between 5

per cent and 6 per cent. Figures available for the first 9 months of 1968 indicate the resumption of pronounced growth in industries relating to machinery except electrical, rubber products, beverages and tobacco, paper, mining and quarrying and cotton and woollen textiles. There is no reason why this growth pattern should not continue, and in other sectors of industry as well.

RECOVERY FROM RECESSION

What of the year ahead? The authorities appear to have the confidence that the level of foodgrains production of the last two years will, unless drought or floods of calamitous proportions intrude, be the irreducible minimum. Indeed, my own view would be that the agriculturist, having seen for himself during these past two years the prosperity within his grasp through the utilisation of the new inputs, will on his own accord and by his own initiative make possible a sustained increase in foodgrains, if not in the total of agricultural, production. It would follow that the fresh generation of purchasing power with the rural population will quicken the demand for an ever increasing list of consumer goods such as electric fans, sewing machines and transistors not to speak of the whole range of cosmetics. As I have argued before, such increase in demand for consumer goods will necessitate increase in basic industrial production since, otherwise, the raw materials for the consumer goods industry will not be available or will prove to be in short supply. That is to say, the recovery from recession or a revival in industrial production should, during 1969, be even more pronounced than was the case last year. The continued burgeoning in agricultural production, the rise in industrial production generally and the fact that expenditure on the Fourth Plan during the first year of that quinquennium will be (save Bokaro) on short gestation projects should all mean that, although the Deputy Prime Minister has budgeted for deficit financing to the tune of Rs 250 crores in 1969-70, we should have another year of stable prices. Indeed, since the high prices ruling for raw jute during 1967-68 will act as a spur to larger sowings for the 1968-69 crop year, the potential bumper crop in raw jute should imply even a decline in the index of wholesale prices. I mention this because the general index of wholesale prices was affected during 1968 by the rise of 7.5 per cent in the prices of industrial raw materials, itself mainly the result of an increase of as much as 67 per cent in the price of raw jute.

NATIONAL CREDIT COUNCIL

The Banking Laws (Amendment) Act came into force from 1st February 1969; but the banking system had by and large anticipated the organisational and other changes which were required so that individual units would conform to the stipulations of the new Act. While the Bill itself, as published in December 1967, largely included the new emphases that the banking system should have regard for, there were further indications from time to time of the changes in attitudes and policies which would be entailed. Thus, for example, it was at the first meeting of the National Credit Council that a specific stress was placed upon banks' role vis-a-vis the priority sectors comprised by small industry, agriculture and exports. In furtherance of its objective of giving directions about credit allocations as between the different sectors of the economy, the NCC constituted, during the year, a set of 5 Study Groups. Moreover, at the second meeting of the NCC, for the first time an attempt was made to project deposit growth as well as to allocate the credit disbursements of the banking system as between the existing pattern of advances and the credit needs of the three priority sectors. Banks have devised various schemes, on their own and individual initiatives, for enlarging the flow of credit to small industry, agriculture and exports.

IMPEDING FACTORS

At this stage, I should like to mention certain factors which are impeding rapid increase in the financing of these three elements. Firstly, while banks generally do look upon the creditworthiness of the small industrialist as the basic criterion, the snag has been that small industry is itself in a bad way owing to the two years and odd of recession. Not only has this implied a sparseness in new loan applications, a greater obstacle has been that, even with bank finance, resumption or revival of production is not always certain of achievement. There is, I fear, the tendency for the small industrialist who has been in trouble to divert the proceeds of a loan after it has been obtained to purposes other than for production. While such diversion is understandable, unless banks as a matter of policy decide that a large portion of the credit extended to the small industrialist be clean in nature, I apprehended the possibility of the small industrialist not being in a position, where banks' supervision as to end-use of credit limits is strict, to draw upon his loan or to increase production.

Secondly, loans to the agricultural sector are necessarily seasonal, sometimes even when they refer to equipment. It is no doubt true that figures relating to outstandings of finance to the farm sector will not be found, as at the end of 1968, to have shown any considerable improvement. But regard must be had for the fact that banks had previously not had the experience of, nor the organisation for, farm financing in any worthwhile measure. After all, the new agricultural inputs have but recently come on the market or are available in significant quantities. In the case of your own Bank, I may state that a beginning has already been made in the extension of assistance to the rural sector in a variety of ways. Such assistance has taken the form of, for example, investment in debentures of Land Mortgage Banks, loans to State Electricity Boards for rural electrification and energising of wells, and advances direct to the farmer in respect of purchase of inputs as well as equipment, besides help for land development schemes. Also, Ucobank joined with other banks to establish the Agricultural Finance Corporation, which is engaged in finance of agriculture on its own or in participation with other commercial banks principally in projects involving considerable finance and which consequently it may not be possible for any individual bank to take up. Since its formal establishment in the middle of last year, the Corporation has already made an impressive start in extending such assistance. I have every confidence that, with the experience gained last year and in the light of such rural branch expansion as has taken place, it will be possible in the years to come to step up more swiftly the quantum of assistance to the rural sector. I may add that the intensification of farm financing will also be helped by assessment and extension of credit on a project area basis rather than to individual agriculturists at several branches of the Bank.

Thirdly, as regards export financing, it is true that there has been a substantial increase as indeed is attested to by the sharp rise in exports during 1968-69. But the newcomer is at a disadvantage—he does not possess the contacts abroad nor, quite often, is he aware of the complexities of the export documentation without which bank financing is impossible. The Indian Chamber of Commerce has brought out a booklet intended to help out the aspiring exporter; but it will be quite some time before he is technically competent to avail of bank finance.

One of the contributory factors leading to the Government decision to extend social control over the banking system was the feeling in certain quarters that banks were tending to concentrate their assistance to large and established industry to the neglect of the small-scale industrialist or the agriculturist. At the same time, there had also been a feeling that loans at prime rates were available only to larger borrowers with, once again, the small man being compelled to bear a higher rate of interest on his borrowing. I have, in my last year's statement, given expression to my view that banks in fact had not neglected small industry, agriculture and exports. I would like to develop this point.

What matters is not the rate of interest charged or even

the drawings made by small industrialists; what banks have to engage in is in making readily available and in good time the resources that the small industrialist or agriculturist may stand in need of. Thus, it is not the outstandings of loans granted to small industry which has significance; it is rather, the limits actually sanctioned and the expedition with which applications have been disposed of—favourably. Even so, in the matter of farm loans, it is obvious that the need for bank finance is seasonal in character. It is the peak of limits which have been approved rather than the outstanding which should be an index of banks' assistance to the rural sector. As for exports, it is obvious that the quantum of bank finance that can be availed of depends partly on the exportable surplus that this country might have but mainly on the ability or capacity of the exporter to find out markets and make his sales in a competitive market; and here, too, it is the total of transactions financed rather than outstandings which has significance.

This brings me afresh to the central question of banks' role vis-a-vis the priority sectors. Is there either necessity or justification for stipulating that the rate of interest to be charged on advances to small industry and farms should be lower than what would be the level based on the banks' cost of operating such accounts? For example, the agriculturist is sought to be enabled to obtain bank finance at approximately one half of what he would have had to pay to the village money-lender. That differential need not be so great while yet offering succour to the agriculturist. The trouble seems to be that we are not considering first things first.

AVAILABILITY OF FACILITIES

I should imagine that what banks should be required to do in regard to small industry is, in addition to making available credit limits of adequate size, to provide a range of advisory services which would enable him to improve his productive operations and, at the same time, find markets for the goods that he manufactures. In a word, the banks' prime responsibility would be to foster production by the new entrepreneur in small industry as well as to facilitate the sale of such manufactures. In the case of the farm sector, it is the spread of banking services which is of fundamental importance. For, it is surely obvious that an agriculturist will prefer to obtain his needs of finance from a bank if he could so do with little fuss and at a great saving vis-a-vis the interest that is being mulcted out of him by the village money-lender. This is why rural branch expansion is important—it is important, certainly, because it will help to monetise the rural sector and mobilise the resources which, with the shift in incomes, are presently lying idle. The question of greater assistance being tendered by the banking system should really be thought of from precisely the diametrically opposite point of view—that is to say, the farmer approaching the bank because the facilities are available at his door step.

I thus seek to emphasise that the National Credit Council's references to alleged neglect of priority sectors has to be rectified only in the sense that such facilities are increasingly made available for higher production by small industry and for higher yields and output from the farm; it must certainly not mean that such operations are to be put through by the banking system to its own detriment, involving a loss which would cripple its own capacity to continue to finance the industrial and economic development of this country.

WOOING CONSTITUENTS

However, what is important is that despite these limitations banks have been striving to woo these three classes of constituents. Not every individual bank may be able to achieve particular sectoral targets. It is obvious that, for example, with recession affecting West Bengal more than any other State, the demand for credit from small industrialists would accordingly be less—and, consequently, the capacity of banks whose activities are concentrated in West Bengal to lend to small industry would be automatically affected. Similarly, in the event of unseasonable weather in a State, a bank which has a preponderance of branches in that particular State would find it difficult to achieve its target of farm finance. So also, since exports, other than plantation products, tend to be concentrated in the hinterland served by Calcutta, Bombay and Visakhapatnam, banks whose main field of activity is elsewhere might find it difficult to achieve targets of export finance. In brief, there cannot be rigidity as to targets for individual banks. What is important, and what alone is important, is that the banking system in general is conscious of its new responsibility and is striving to discharge its duties thereunder to the best of its ability.

But, whether it is assistance to small industry—to the extent that it cannot be or is not covered by the Reserve Bank guarantee scheme—or farm financing, it is obvious that the risk potential in banking operations will somewhat increase. Furthermore, proportionately as well as in absolute terms, banks' lending to the priority sectors is bound to increase, and possibly at a swift pace when banks embark upon an intensive plan for establishment of rural branches. In this light, prudence requires that reserves, both published and inner, be strengthened to meet emerging losses. But the capacity of banks to add to reserves has been eroded in recent years with the increase in operating costs not to speak of the cost of the deposits themselves. Besides, priority sector loans do affect banks' profitability, a fact that Government itself recognised with its provision of a scheme for a subsidy 1.5 per cent on export financing which the banks put through at 6 per cent. But even this quantum of subsidy is insufficient. Besides, although refinance is available from the Reserve Bank at Bank Rate or even at concessional rates, the fact is that the generally easy money conditions which obtained during 1968 precluded the banks from utilising such refinance facilities. Particularly was this the case during 1968 since the average cost of deposit money—and deposit growth ran considerably ahead of expansion of advances—at 4.3 per cent was cheaper than any funds obtainable from the Reserve Bank or any other agency. Other things being equal, therefore, the prospect is for bank profits to be eroded in proportion to an increase in their lending to the priority sectors.

BANK PROFITABILITY

The Banking Commission, about which I shall have more to say, will find that banks' profitability was further adversely affected during 1968 as one of the consequences of the new monetary policy as signalised by the reduction of the Bank Rate from 6 per cent to 5 per cent on 2nd March 1968. For, at the same time, not only was the ceiling on advance rates brought down by half per cent to 9.5 per cent; shortly thereafter it was made clear that the Reserve Bank expected the banks to bring down their lending rate, whatever it might be, by half per cent in regard to 80 per cent of their advances. While earnings were thus reduced with immediate effect, savings arising from lower interest rates on term deposits could materialise only as and when such deposits matured and came up for renewal. In consequence, with bank earnings eroded by the effective reduction of half per cent covering 80 per cent of their lendings for a full ten months during 1968 but with savings on deposits staggered over a period certainly of months and sometimes of years, profit margins stood reduced.

If, simultaneously, there had been an improvement in the productivity of bank labour, perhaps this decline in profit might have been made good. In the event, I have to stress that banks have an additional responsibility, in the new era of social control, to educate bank labour as to the need for

an improvement in productivity. Overtime charges have to be reduced to the unavoidable minimum. For, it is only by such improvement in productivity that earnings of sufficient magnitude can be generated both for guarding against the risks inherent in financing of the priority sector and for enabling emoluments to bank labour to be maintained.

The prospect, again, is that operating costs of commercial banks will continue to rise since, as part of their new responsibility under social control, they will be embarking upon a branch expansion programme so as to monetise the rural sector as swiftly as possible. Calculations made go to show that it is unlikely that deposit accrual over the first few years with the bulk of the rural branches will be sufficient to cover the operating costs of even the smallest sized branch with a minimum of personnel. Here, I have to repeat that relevant and appropriate provisions of the Bank Award should not be made applicable to banks' branches in towns with a population of less than 10,000. It is only then that the loss inherent in rural area branches can be reduced to a magnitude which can be met from the profits of branches in the urban and industrialised areas. Let us remember, in this context, that the objective of banks is not so much to mop up new resources from the rural areas; the objective, on the contrary, is to bring bank finance to the door-step of the agriculturist and to wean him away from the village money-lender and his exorbitant rates of interest. That is to say, rural branch expansion will not necessarily mobilise deposits for the use of urban branches; such resources, instead, will be used immediately, though perhaps only seasonally, in enabling the farmer to take advantage of the new agricultural strategy.

Furthermore, this endeavour cannot be halted if only because such bringing of the small towns and villages within the ambit of the organised money market is a pre-requisite to swifter economic growth of the country as a whole. What, therefore, we have to strive to do is to discover how earnings can be increased and economies devised as regards expenditure.

BRANCH EXPANSION

While on the subject of branch expansion, I would like to draw attention to two further aspects. With the best will in the world, I suspect that banks will have to make haste slowly in the establishment particularly of rural branches. In this regard, sites, as well as residential accommodation for the Bank Manager, are hard to come by; and when available, landlords have a tendency to ask unreasonably high rents. So, whether it is negotiating with the landlord about more reasonable rent or just finding a suitable site, the excursion into an unbanked small town or village proves more time consuming than might have been expected. On the other hand, it is not as if banks possess on their employment registers such excess or surplus of personnel as to admit of their ready and immediate transferability to man a large number of new offices. I am glad to find that a National Institute of Bank Management is now being set up for the training of banks' executives/officers; and I believe that the banks themselves will have greatly to augment facilities for training of staff before they make their great leap forward into the rural sector. Besides, branch expansion can work well only to the extent that there is a concomitant delegation of responsibility. This requires training of staff not only to assume but also to discharge that responsibility. Since we in India have so far shown little signs of being prepared for this kind of decentralisation, we have to get over one more hurdle that stands in the way of branch expansion.

As for the licensing policy of the Reserve Bank, securing of sanction for new branches at unbanked areas offers no problem; but the Reserve Bank does make the stipulation that, in centres with a population of less than 100,000, no new branch will be approved if the site is located within 400 metres of an already existing bank branch. I venture to submit that, in many or most of such small towns, the commercial centre occupies but a brief expanse, possibly no more than a single main road, although the residential population might be more extensively distributed. I suggest that this is a needless stipulation. With Social Control, banks have already assumed responsibility for spreading the banking habit as widely and as quickly as they can. No rule of thumb can determine whether a city can support an "X" number of branches based strictly on population. For, deposit growth does not depend on numbers alone.

BANKING SURVEY

The decline in bank profits as reported by almost all the major commercial banks—with the significant exception of the State Bank of India—has to be viewed in the light of another year of satisfactory growth in banking operations. Deposit resources of commercial banks rose by Rs 442 crores as between the last Fridays in December 1967 and 1968 as against Rs 386 crores in the corresponding period of the previous year. Similarly, the total of advances expanded by Rs 333 crores as compared with Rs 293 crores. These, however, are only the year-end figures and do not reflect the remunerative utilisation or otherwise of resources during the course of each of these years. The blunt fact remains that although the credit ratio of commercial banks was higher at 72.73 per cent on the last Friday in 1968 against 72.43 per cent on the last Friday of 1967, bank earnings could not be maintained. The reasons therefor I have given earlier: (a) the new structure of interest rates as applicable from 2nd March 1968 was responsible for an immediate reduction in the quantum of earnings but only a staggered and somewhat deferred savings in the interest paid on deposits; and (b) lending to the priority sectors, despite the subsidy available on export financing, involved a loss. The deposit growth of last year, it is pertinent to point out, is nearly double the deficit financing incurred during 1968-69 - although the periods do not correspond, the comparison has its validity. For, I believe that the sustained mobilisation of new deposits is in the main a reflection of new accruals mopped up by banks from their branch expansion schemes. Since banks are committed to further intensification of branch expansion, and since agricultural production during the current crop year is almost certain to yield not less than 95 million tonnes of foodgrains, the upward trend in deposit growth is likely to be maintained. Meantime, the current laxity in demand for credit should be made up in part by finance required by the priority sectors. Moreover, I expect that, with the revival in industrial production during the latter half of 1968-69, the industrial demand for banking finance, especially to build up inventories now in the process of being depleted owing to step up in production, will manifest itself by, perhaps, the middle of this year.

GILT-EDGED

In the light of the relatively easy money conditions during the year, and with Bank Rate being reduced some time before the 1968 slack season started, the success of the Government's borrowing programme for 1968-69 was assured. Following the pattern of recent years, the Central Government put through its borrowing effort in two tranches the second of which specifically included a loan intended to secure the support of the banking system. In the event, realisations from the two tranches of subscriptions aggregated to Rs 321 crores as compared with Rs 300 crores for which credit had been taken in the budget. Accordingly, with the gilt-edged market in fine fettle, and banks experiencing an improvement in the market value of their gilt-edged holdings vis-a-vis the book values, acquisition of gilt-edged by commercial banks amounted to Rs 113 crores in 1968 against Rs 54 crores in the previous year. At this juncture, I should add that the higher absorption of gilt-edged was owing in part to the open market operations of the Reserve Bank of India. These operations were so conducted as to induce a sustained

demand for gilt-edged from the banking system, which consistently availed of the Reserve Bank's facilities. Moreover, the eligibility of State Government loans for investment of Provident Funds up to a higher proportion ensured that these securities also ruled at steady, if not appreciating, prices. Thus, Reserve Bank policy with regard to open market operations was an important factor in the monetary developments of 1968. In this regard, too, with the continuance of deposit growth with banks, and current slackness in demand for bank credit, conditions should be conducive for the Central Government being able to exceed its target for market borrowings in 1969-70, which itself is higher than the previous year by Rs 25 crores (net). Accordingly also, the gilt-edged market should be presenting a firm front.

BANKING COMMISSION

Bank profitability is a question that, indirectly, the Banking Commission will no doubt examine. It may be recalled that Mr Morarji Desai had promised the appointment of a Banking Commission comprehensively to investigate into the working of banks when he introduced the bill heralding social control in December 1967. However, it was only late in January this year that its appointment was announced by Government. Subsequently, the terms of reference have also been published. The Commission started functioning on 1st March and it is expected that it will submit its report by the end of next year. I should like, if I may, to touch on one or two of the terms of reference. Firstly, the Commission has been asked to make recommendations "for improving and modernising the operating methods and procedures and the management policies of commercial banks." To my mind, the specific issue in particular which the Commission has to come to a finding about is on the role of automation in banking operations. There need be no apprehension that automation will involve retrenchment; indeed, on the contrary, there will be a greater demand for specialised personnel to man the machines. But, having regard to the expanse of this country and the rapidly increasing number of personal accounts with but small average balances, and having further regard to the fact that banks' coverage of the rural areas will soon begin on a massive scale, it seems to me that continued efficient operation dictates the necessity for an increasing use of machines. It will only be then that banks will be able to cope with the swelling volume of transactions. An incidental benefit may be that, with the improvement in productivity, banks' profitability would take a turn for the better. Secondly, in its examination of the adequacy of the available surplus and reserves of banks, the Commission will doubtless be also called upon to give its views on how best that surplus can be enlarged.

Unfortunately, one fundamental factor affecting banks' earnings lies outside of the purview of the Banking Commission's terms of reference. I have in mind here the role of interest rates. It is not that I wish to engage in a debate on whether we should have a cheap or dear money policy. I believe it is time that Government as distinct from the Reserve Bank of India became clear in its mind about the need for an orderly structure of interest rates covering the economy as a whole rather than merely that aspect constituted by organised banking. That is to say, already, the money market rates are more or less linked with Bank Rate. But what, may I ask, of the interest offered by Government on its small savings schemes, and the tax-free interest available on Post Office Savings Bank deposits? If banks are to go into the small towns and villages, they may be unable to compete with the Post Office Savings Banks, given the present structure of interest rates. Perhaps it may be possible for Government, at any rate, to direct the Commission to make recommendations on the minimum margin as between ceilings on deposits rates and floors for lending rates in order to ensure an adequacy of bank profitability. Its recommendations could take the form of prescribing links as between Bank Rate, on the one hand, and ceilings on deposits rates and floors for advances, on the other. In such a situation, the directive stipulating a maximum on advance rates would, naturally, be rendered redundant and unnecessary.

But I would stress that the fact that the Banking Commission has been appointed should not stand in the way of the banking system moving ahead, in the long interim before the report is submitted. There is a clear role of the banking system in facilitating a revival of the capital market no less than in the completion of its projects by the private sector in the Fourth Plan. There is, again, the responsibility assumed by banks to move out briskly into the rural areas. It is for the monetary authorities and the banks themselves to ensure that these responsibilities are discharged smoothly. In a word, the great task of banks in fostering development needs as a precondition the ensuring of adequate profitability for strengthening of reserves.

NEW SERVICES

It is my view that banks should not merely think in terms of a reduction in deposit rates or an increase in lending rates as the only means whereby they will be able to restore levels of profitability adequate for the assumption of their new responsibilities. It seems to me that a vista of new opportunities has been created. In the first place the impending abolition of the managing agency system should oblige us to think in terms of undertaking services such as would in other countries be performed by Issue Houses. There is a range of technical, advisory and promotional services, from the drawing up of project reports to placement of shares with the public, which banks can usefully make available. While a sharp increase in exports has taken place in the main because of efforts by established exporters, the diversity in the range of products in which we shall be having an exportable surplus suggests that

a further boost would be possible if only such manufacturers and emergent exporters are given expert advice as to procedures and technicalities involved. Indeed, in addition to the efforts of manufacturers and exporters to find contacts abroad, the Indian banks could, with the co-operation of their worldwide correspondents, be in a position to offer promotional guidance. In this context, the overseas correspondents could also help in the investigation of possibilities for the production in India of components and small parts for export to the manufacturers abroad. Thirdly, the increasing complexity of various laws—whether as relating to income-tax or estate duty, company affairs or sales tax—should surely open our eyes to the practicability of banks offering assistance in these regards to their constituents. Lastly, hand in hand with branch expansion programmes, banks might consider whether it will not be remunerative while at the same time offering a new facility to the rural constituent if silos and warehouses, for storage of the harvested crops and fertilisers and seeds alike, are built and maintained by the banks. The advantage would be mutual: the farmer finds that his problem of storage has been eliminated; the banks for their part are more assured of their security. I intend that Ucobank should take up some of these new aspects of banking operations at an early date. For a start, an attempt will be made to provide the promotional assistance to the exporter; the specialised advisory services in the nature of Issue House functions to the new entrepreneur; and guidance as to income-tax, company affairs and executor and trustee services to any constituent who may seek them.

THE BUDGET

I am of the view that the role of banks during 1969 in assisting industrial production may be even greater in view of the budget proposals for 1969-70 of Mr Morarji Desai, Deputy Prime Minister and Finance Minister. For, the fact of the matter is that with the best will in the world Mr Desai has been unable to imbue his budget proposals with the attribute of production orientation. I dare say that Mr Desai has been moved by caution thus to restrict developmental outlay during 1969-70, and that the same caution has prevented him from further such measures of relief and concession which might have by themselves ushered in a new era of intensified industrial growth. The figures as are available would seem to indicate that lower receipts under foreign aid, coupled with certain increase in revenue expenditure owing to merger of Dearness Allowance with salaries etc., reduced the available resources for developmental outlay. Even then, as I had predicted last year, the recourse to deficit financing is shown lower at Rs 260 crores against Rs 290 crores originally budgeted. The Deputy Prime Minister may possibly have permitted an increase in expenditures if price indices had shown distinct signs of declining rather than presenting a picture of no more than stability. For, such stability in the price structure was achieved at a time when, for a second year, a record foodgrains crop had been harvested and when import of foodgrains at 5.7 million tonnes, was not inconsiderable. Thus, is a sense, Mr Desai has apparently chosen to mark time during 1969-70 when developmental outlay as proposed will be no more than Rs 1903 crores. Even for such outlay, there will be need for recourse to deficit financing in an amount of Rs 250 crores.

BANKS' RESPONSIBILITY

However, the restriction of its developmental outlay by the Central Govemnent does not necessarily imply that the rate of growth of production in the private sector will slow down during the year. On the contrary, and I emphasise this point afresh, the prospect of a third good year of agricultural production should mean that, with the continued generation of mass purchasing power, the demand for consumables will show a further substanial increase. Indeed, Mr Desai, in his budget speech, has made the point that rising levels of investment can be "achieved without inflation only on the basis of a growing volume of production of essential consumer goods." In turn, the improvement in agricultural productivity has to be accompanied by "greater efficiency and expansion of capacity in consumer goods industries." As such, with the possibly substantial improvement in output by consumer goods industries, and in view of the impact it will make upon the demand for the output of the basic industries, I expect that the banking system will, during 1969, be called upon to shoulder considerable responsibility in financing of such ventures. There is no doubt that the banking system is equipped to discharge that responsibility efficiently and swiftly.

Dr Bharat Ram

COROMANDEL FERTILISERS LIMITED

The Statement of Dr Bharat Ram, Chairman of the Board of Directors, on the occasion of the Seventh Annual General Meeting of the Shareholders held on 13th March 1969.

Ladies and Gentlemen :

It is a great pleasure to welcome you to the Seventh Annual General Meeting of Coromandel Fertilisers.

Your Company's first year of operation was marked by a generally successful start-up of the plant at Visakhapatnam. It was marred, however, by an inconsistent electrical power supply to the plant, several rail trans port shortages and an unprecedented monsoon failure in our prime marketing area. The effect of these conditions continues to be felt but steps have been taken to overcome the difficulties and to prevent them becoming critical in the current year. Prospects appear improved for stabilised production and expanded sales of Gromor products.

As indicated in the Statement of Accounts circulated to you earlier, Coromandel's financial condition remains satisfactory. In late 1967 the construction phase of the plant was essentially complete. To meet added needs for construction capital during 1967 a Rs 5 crore financing consisting of Rs 1.09 crore equity shares and Rs 3.91 crore debt was negotiated and drawn down. Increased working capital requirements were met by short term arrangements with several financial institutions. Further seasonal needs for funds are being covered with facilities afforded by existing lenders. The operating loss of Rs 3.87 crore noted in the Annual report was as anticipated in view of production start-up in mid February 1968 coupled with full depreciation and financing charges. Before considering depreciation costs, the loss was only Rs 20 lacs. The prospects for profitability during the fiscal year 1968/69 depend upon a number of factors, many outside of the direct control of Company management. Although it is difficult to forecast, we are looking forward to substantially better production, marketing and distribution conditions and improved financial performance in the current year.

On December 10, 1967 our giant plant at Visakhapatnam was inaugurated by the Deputy Prime Minister, Shri Morarji Desai and a farmer, Shri Grandhi Ramamoorty Setty. Production of urea began the same month followed by output of the first ton of complex 28-28-0 fertiliser in early February 1968. I believe we can say that there were fewer technical start-up problems than might ordinarily be expected in a plant of this type. Design capacity rates of production in each of the major manufacturing units were reached within a few months, with the plant running at about 80% of capacity in September. Maintaining these rates consistently proved to be impossible, however, largely because of power and fresh water problems. Frequent and severe power fluctuations caused major losses in production as well as damage to equipment and catalysts. Water needed in the factory was rationed causing some further production curtailment. A steady improvement in both services supplied by State and local authorities has resulted in better operations and increased monthly production capability. Yet, some concern is still present regarding reliability of the power supply. It must be stated, in passing, that Coromandel's experience is not unlike that of other fertiliser operations in India. It is a fact that if industry in India is to soon reach a competitive and economical level, a vast improvement in the area of supply of services must be made. Only with such improvements can an industrial facility, Coromandel or any other, sustain capacity production.

Imported rock phosphate and sulphur were readily available on long-term contracts. Adequate supplies of these materials and naphtha for ammonia production are assured for the current year as well.

Coromandel's relations with its employees continued to be satisfactory and no labour difficulties were encountered. A planned program to replace American technicians with Indian personnel has been followed. This program has recently been accelerated. It has been particularly pleasing to note the rapidity with which the manpower recruited here have been able to assume responsibility within the organisation.

I previously mentioned that the drought in Andhra Pradesh had adversely affected sales in Coromandel's principal marketing areas. To this natural calamity was added an over-supply of imported fertilisers, especially those containing phosphate. Accordingly, sales of the Company's products fell short of original forecasts and stocks were carried over beyond the main planting season. Promotional programs by Coromandel and sales efforts by E.I.D.—Parry are effectively creating popular acceptance of Gromor. Expansion of the marketing area to States adjoining Andhra has begun although the focus of sales will continue to be in this State. We look forward to a growth in sales this year in all areas where marketing is being carried out. Demand for fertilisers remains strong despite being highly dependent on rainfall.

To facilitate sales and to level out movement of product from the plant to the market place, greatly increased field warehousing has been undertaken. The seasonality of fertiliser off-take dictates we provide product to the cultivator from locations nearer his farm. Our experience regarding covered rail wagon availability has not been satisfactory but we feel that better rail service should be possible in the coming months.

In October 1967 the Government of India issued a letter of intent to Coromandel which approved in principle an expansion program outlined by management. Further progress towards such an expansion has been delayed for several reasons, including the need to analyse operating characteristics of the existing factory units. A study is now under way that will determine the feasibility of moving forward with enlargement and diversification of the factory at Visak.

It is with regret that the resignations of two members of the Board of Directors were accepted during 1968. Mr David B. Barlow and Mr V. K. Rao's services were valued greatly and we wish to express our gratitude for their contributions to Coromandel. Three new Directors were appointed in the same period: Mr T. G. Hughes, Mr M. A. Abbasi and Mr M. G. Menon.

It is fully recognised that unusual demands have been made on the men and women of Coromandel during the initial year of Company operation. In conclusion, permit me to express the Company's appreciation to these employees for their splendid efforts and loyalty under these circumstances.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

THIS IS AN ANNOUNCEMENT AND NOT A PROSPECTUS AND PERSONS INTERESTED ARE REQUESTED TO APPLY FOR A COPY OF THE PROSPECTUS FOR FULL DETAILS FROM THE COMPANY'S REGISTERED OFFICE, BANKERS TO THE ISSUE, MANAGING BROKERS, BROKERS AND UNDERWRITERS NAMED BELOW:—

Issue of 15,000 Cumulative Redeemable Preference Shares of Rs. 100/- each at par and 85,000 Debentures of Rs. 100/- each at par.

THE SURAT ELECTRICITY COMPANY, LIMITED

REGISTERED OFFICE, KILLICK HOUSE, HOME STREET, FORT, BOMBAY.

SHARE CAPITAL.

AUTHORISED:

70,000 Equity Shares of Rs. 100/- each.	Rs. 70,00,000
5,000 Cumulative Preference Shares of Rs. 100/- each.	Rs. 5,00,000
1,25,000 (unclassified) Shares of Rs. 100/- each.	Rs. 1,25,00,000
	Rs. 2,00,00,000

SUBSCRIBED AND PAID UP:

70,000 Ordinary (Equity) Shares of Rs. 100/- each fully paid up	Rs. 70,00,000
5,000 6½% (Free of Income-tax) Cumulative Preference Shares of Rs. 100/- each fully paid up.	Rs. 5,00,000
	Rs. 75,00,000

PRESENT ISSUE:

15,000-9.5% (Free of Company's tax but subject to deduction of taxes at source at the prescribed rate) Cumulative Redeemable Preference Shares of Rs. 100/- each at par for cash PAYABLE Rs. 50/- on application and Rs. 50/- on allotment and

85,000-7½% (Subject to tax) Debentures of Rs. 100/- each at par for cash PAYABLE IN FULL ON APPLICATION.

BOARD OF DIRECTORS:

NAME AND ADDRESS:	OCCUPATION.
Mr. Ramakrishna Parmeshwar Aiyer. No. 581, 18th Road, Khar, Bombay-52.	Business Executive.
Mr. Ramesh Ramanlal Saraiya. 71, 'Casa Grande' Little Gibbs Road Malabar Hill, Bombay-6.	Cotton Merchant.
Mr. Navnitlal Chunilal Javeri. 215, Marine Drive, Bombay-1.	Merchant.
Mr. Manilal Virchand. Megh Prasad Bungalow, Nepean Sea Road, Bombay.	Cotton Merchant.
Mr. Premalkumar Lalitmohan Gandhi. Ardeshir Kotwal Road, Opp. Ghandhi Baug, Nanpura, Surat.	Advocate.
Mr. Himatlal Kantilal Shah. "Kantilal House", 14, New Queen's Road, Bombay-4.	Merchant.
Mr. Kantilal Maganlal Kapadia. 391, Linking Road, Khar, Bombay-52.	Business.

MANAGING AGENTS:

Killick Industries Limited,
Killick House, Home Street, Fort, Bombay-1.

UNDERWRITERS:

Name and Address:

Life Insurance Corporation of India,
'Yogakshema' Madame Cama Road, Bombay-1.

Unit Trust of India,
Bombay Life Building, 45, Veer Nariman Road, Bombay-1.

The Industrial Credit and Investment Corporation of India Ltd.,
163, Backbay Reclamation, Bombay-1.

Champaklal Devidas,
Agakhan Building, Dalal Street, Fort, Bombay-1.

The United Commercial Bank Ltd.,
Ucobank Building, D. N. Road, Bombay-1.

BANKERS TO THE ISSUE:

The Bank of Baroda Ltd.,
Apollo Street, Bombay-1.

The Chartered Bank,
Mahatma Gandhi Road, Fort, Bombay-1.

The Bank of India Ltd.,
70-80, Mahatma Gandhi Rd, Fort, Bombay-1.

The Central Bank of India Ltd.,
Mahatma Gandhi Road, Fort, Bombay-1.

The Bank of Maharashtra Ltd.,
45/47, Apollo Street, Fort, Bombay-1

The Indian Overseas Bank Ltd.,
Elphinstone Building, 2/10, Veer Nariman Road, Fort, Bombay-1.

The United Commercial Bank Ltd.,
Ucobank Building, D. N. Road Bombay-1.

MANAGING BROKERS.

Champuklal Devidas,
Agakhan Building, Dalal Street, Bombay-1

BROKERS:

Champaklal Devidas.
Agakhan Building, Dalal Street, Bombay-1

Narandas & Sons,
Union Bank Building, Apollo Street, Bombay-1

Harkisondas Lukhmidass,
Stock Exchange Building, Apollo Street, Bombay-1.

Lewis & Jones,
Bank of Baroda Building, Apollo Street, Bombay-1

R P. Shroff & Sons,
Stock Exchange Building, Apollo Street, Bombay-1

Keshavdas Pranjiwandas,
Stock Exchange Building, Apollo Street, Bombay-1.

Jamnadas Morarjee & Company,
8-10, Dalal Street, Fort, Bombay-1.

Jamnadas Khushaldas & Company,
Share Bazar, Bombay-1.

Paterson & Company,
11/12, Second Line Beach, Madras-1.

Chitra & Company,
322/323, Linghi Chetty Street, Madras-1.

V. S. Krishnaswami & Company,
106, Armenian Street, Madras-1.

Place, Siddons & Gough (Private) Limited,
6 Lyons Range, Calcutta-1.

Stewart & Company,
14, India Exchange Place, Calcutta-1.

Harbans Singh Mehta & Company,
33, Regal Building, Parliament Street, New Delhi-1.

P. Roy Company,
3/8, M. M. Road, Jn. Panchkuin Road, New Delhi-1.

Chinubhai Chimanlal Dalal,
Fatehbhai's Haveli, Ratanpole, Ahmedabad-1.

Chellam & Company,
15/55, Big Bazar Street, Coimbatore-1.

P. B. Afzulpurkar,
Sultan Bazar, Hyderabad (A.P.)

LOCATION OF THE COMPANY'S UNDERTAKING:

The Company is engaged in the generation and distribution of electricity to consumers within the Area of Supply covered by the Electric Sanction, which comprises (a) the area contained within the limits of the City Municipality of Surat including Hope Bridge over the Tapti River, and (b) so much of the area subject to the control of the Surat District Local Board as lies on the left bank of the Tapti River, and is within a radius of 3 miles from the Surat City, Municipal Offices. The electricity distributed by the Company to its consumers within the area of supply is partly generated at its own power station and partly purchased in bulk from the Gujarat Electricity Board. Bulk supply is delivered to the Company at three points within its Area. The overall area served by the Company is about 50.5 sq. kilometres (19.5 sq. miles).

EXISTING & PROPOSED ACTIVITIES.

The Company does not intend to acquire any new business out of the proceeds of the issue but will utilise the same for—financing capital expenditure on power distribution facilities within the area of supply of the Company.

DATE OF OPENING & CLOSING OF SUBSCRIPTION LIST:

The subscription list will open at the commencement of banking hours on Tuesday, the 1st day of April 1969 and will close at the close of banking hours on Tuesday, the 15th day of April 1969 or earlier at the discretion of the Directors but not before the close of banking hours on Friday the 4th day of April 1969.

PROSPECTUS & APPLICATION FORMS:

Application forms along with copies of the Prospectus can be had from the registered office of the Company as well as from the Underwriters, Managing Brokers, and Brokers, whose names are mentioned above and from the main office of the Bankers to the Issue at any of the places mentioned below: —

The Bank of Baroda Ltd., Bombay/Ahmedabad/Surat/Bangalore/Calcutta/Delhi/Hyderabad/Indore/Madras.

The Chartered Bank, Bombay.

The Bank of India Ltd., Bombay.

The Central Bank of India Ltd., Bombay.

The Bank of Maharashtra Ltd., Bombay.

The Indian Overseas Bank Ltd., Bombay.

The United Commercial Bank Ltd., Bombay.

Trade Winds

NO CUT IN BANK RATE

MR L. K. Jha, Governor of the Reserve Bank, while addressing the luncheon meeting of the Federation of Indian Chambers of Commerce and Industry, ruled out the possibility of any reduction in the Bank rate in the new year. He warned the people not to be misled by false rumours and speculation.

CANALISATION OF IMPORTS

Mr G. M. Modi, the outgoing President of FICCI, and others opposed the idea of routing all imports through STC as announced some time ago by the then Minister for Commerce, Mr Dinesh Singh. They felt that it would be harmful to the country. Mr P. L. Tandon, Chairman of STC, however, indicated at the meeting of the Federation of Indian Chambers of Commerce and Industry that there was no immediate move to canalise all imports through the STC. The corporation, he added, would for the present concentrate on increasing exports routed through it.

F.I.C.C.I. OFFICE-BEARERS

Mr Ramnath Podar has been unanimously elected president of the Federation of Indian Chambers of Commerce and Industry for 1969-70. Mr D. C. Kothari was unanimously elected vice-president. The following were nominated to the committee of the Federation: Mr Ramanbhai B. Amin, Mr G. M. Modi, Dr R. C. Cooper, Mr Pratap Bhogilal, Mr Ratansimulji, Mr K. Eswaran and Mr Pran Prasad.

A fifteen-member standing advisory committee consisting of the following was constituted by the committee: Mr Ramnath Podar, Mr D. C. Kothari, Mr Babubhai M. Chinai, Dr Bharat Ram, Mr S. L. Kirloskar, Mr Ramanbhai B. Amin, Mr L. N. Birla, Mr G. M. Modi, Mr G. D. Somani, Mr Pravinchandra V. Gandhi, Mr S. S. Kanoria, Mr Madanmohan Mangaldas, Mr C. C. Chokshi, Mr Harishankar Singhania and Mr M. V. Arunachalam.

Earlier, the general body of the Federation elected the following members to the committee for the three-year term in the 15 vacancies caused by rotation: Member-bodies—Industry: Mr K. P. Goenka, Mr S. S. Kanoria, Mr I. M. Thapar, Mr Premchand Jain and Mr Viren J. Shah. Trade: Mr Madanmohan R. Ruia, Mr B. P. Poddar, Mr Surottam P. Hutheesing, Mr M. L. Khaitan and Mr S. P. Godrej. Associate members: Mr K. Dhandhania, Mr Arvind Narottam, Mr Ambalal Kilachand, Mr Ramkrishna Bajaj and Mr S. K. Dutt.

The other members of the committee are: Mr Babubhai M. Chinai, Mr S. L. Kirloskar, Mr L. N. Birla, Mr B. P. Agarwalla, Mr D. C. Kothari, Mr Nandlal Kanoria, Mr Pravinchandra V. Gandhi, Mr K. N. Mookerjee, Mr Maddi Sudarsanam, Mr Pratapsingh Mathuradas, Mr Madanmohan Mangaldas, Mr Bhupendra Kumar Sethi, Mr S. M. Dahanukar, Mr G. K. Devarajulu, Mr K. K. Birla, Mr G. N. Khaitan, Mr Harishankar Singhania, Mr M. V. Arunachalam, Mr Harish C. Mahindra, Mr H. P. Nanda, Mr C. V. Hariwala, Lala Charat Ram, Mr Maheshwar Dayal, Mr G. K. Bhagat, Mr J. H. Doshi, Mr A. Nagappa Chettiar, Mr A. K. Jain and Bhai Mohan Singh.

F.I.C.C.I. AWARDS

To mark the 40 years of its career, the Federation in 1967 decided to institute awards in the following fields of wider social responsibility. Agriculture, Export Promotion, Family Planning, Industrial Relations and Research in Science and Technology.

There are two categories of awards: individuals and companies. A jury consisting of Dr P. B. Gajendragadkar, Vice-Chancellor, Bombay University, Dr D. S. Kothari, Chairman, University Grants Commission, Mr K. R. Damle, Chairman, Union Public Service Commission, Mr Kasturbhai Lalbhai and Mr A. Ramaswami Mudaliar decided to make the following awards: **Agriculture:** Jay Shree Tea and Industries Ltd, (Kallyar Estate, Coimbatore).—Company Award. **Export Promotion:** Mukand Iron & Steel Works Ltd., Bombay.—Company Award. **Family Planning:** i) Smt Aloo Mowdawalla of Messrs. Godrej & Boyce Mfg. Co. Pvt. Ltd., Bombay.—Individual Award. ii) The New Central Jute Mills Ltd., Calcutta.—Company Award. **Industrial Relations:** Mr K. N. Naoroji of Messrs. Godrej & Boyce Mfg. Co. Ltd., Bombay.—Individual Award. **Research in Science and Technology:** Mr S. C. Gupta, Director, National Sugar Institute, Kanpur.—Individual Award.

The institution of the awards is an expression of the Federation's conviction that in the better organisation of material and human resources, the initiative of individual and of corporate enterprise is of crucial importance. Such initiative undertaken on a free and farsighted basis provides the key to development. The awards were presented by the Prime Minister at the inauguration of the Federation's annual session, held at Vigyan Bhavan, New Delhi on March 15.

TRIPARTITE TRADE DEAL

A tripartite trade deal was concluded in New Delhi on March 10 between India, Tunisia and Bulgaria. This is said to be the first of its kind. According to the agreement India will export to Tunisia, tea and some other commodities including manufactures against exports by that country of phosphate to Bulgaria. Bulgaria will on this account supply urea to this country. The value of the contract is Rs 3.40 crores. The payments will be in non-convertible rupees. The tripartite arrangements were discussed between India and Bulgaria during the bilateral trade talks at Sofia on October 1 last year. The present tripartite deal was signed by the State Trading Corporation.

NEW TRADE CONTROL OFFICE

An Import and Export Trade Control office has been opened at Ahmedabad from March 1, 1969. The office, headed by a Deputy Chief Controller of Imports and Exports, has jurisdiction over the whole state of Gujarat, except for those districts, which were included in the regions formerly known as Saurashtra and Kutch. In respect of Saurashtra and Kutch (excluding Kandla Free Trade Zone), however, applications from registered exporters under the import policy for registered exporters will be made to the Deputy Chief Controller of Imports and Exports, Ahmedabad. With regard to the applications from registered exporters from the Kandla Free Trade Zone, they will continue to be dealt with as before.

INDO-U.A.R. TRADE CONTRACTS

Following the discussions between the Indian and UAR trade delegations in Cairo in January, 1969, it was agreed that the two governments would recommend to the traders and trading organisations that standard gold clause be included in the contracts for import and export of goods between the two countries as under: "The price specified in this contract is based on the current par value of the Indian rupee (one Indian rupee now is equivalent to 0.118489 gramme of fine gold. In the event of any change in the par value of Indian rupee (excepting when such change, occurs as a result of revision of the official price of gold), the amounts still due for the goods already delivered under the contract and the prices of goods still to be delivered under the contract will

be adjusted in proportion to the change in the par value of the Indian rupee.

INDO-FRENCH ECONOMIC COMMISSION

The discussions of the Joint Indo-French Economic Commission concluded on March 11, 1969 in New Delhi, with a decision to extend the validity of the Indo-French Trade Arrangement up to the end of 1969. The formal documents in this regard were signed between representatives of the two countries later.

COMMISSION ON INTERNATIONAL DEVELOPMENT

The Commission on International Development, which is making a wide-ranging review of foreign aid policies and practices, will continue during March and April the series of meetings in less-developed countries which it began in Chile in January. The Commission's chairman, Nobel Peace Prize winner, Mr Lester B. Pearson, has invited 33 African and 19 Asian governments to send representatives to meetings at which he and some of his colleagues will hear their views on economic development and aid. Meetings for this purpose will be held in Abidjan, Kampala, Rawalpindi, New Delhi and Singapore. Mr Pearson will be in New Delhi from April 3 to 5. This round of regional meetings has been preceded by a regular meeting of the Commission in Rome, from March 13 to 15 and will be followed by personal visits of Mr Pearson to two donor governments, Australia and Japan. In all, Mr Pearson will be away for six weeks. The formation of the Commission on International Development was announced by World Bank President, Robert S. McNamara, on August 19, 1968 when Mr Lester B. Pearson, former Prime Minister of Canada, agreed to preside.

ROYAL COMMISSION ON CO-OPERATIVES

The Royal Commission on Co-operative Movement, Ceylon, paid a short visit to the Vaikunth Mehta National Institute of Co-operative Movement, Poona, recently. The Royal Commission was headed by Dr A. F. Laidlaw as its chairman. Mr S. S. Puri, I.C.S., Joint Secretary, Planning Commission, was one of its members. The Commission was impressed by the work of the Institute and also paid a visit to the Janata Sahakari Bank Ltd, Poona.

STATE BUDGETS

Himachal Pradesh

Fresh taxation designed to yield Rs 1.40 crores has been proposed in the Himachal Pradesh budget for 1969-70 presented by the Finance Minister, Mr Karan Singh, in the Assembly on March 12. The new proposals include taxes on timber, apples, fruits and vegetables. A levy of toll tax on vehicles crossing important bridges, increase in royalty from minerals, and duty for manufacture and export of indigenous spirits and beer are also proposed. According to the proposals, a nominal fee is likely to be charged on outdoor patient tickets and for treating animals. The state government also proposes to start a lottery. Mr Karan Singh stated that an estimated revenue income of Rs 19.74 crores and an expenditure of Rs 31.71 crores have been proposed during 1969-70. This leaves a deficit of Rs 11.97 crores.

Orissa

Mr R. N. Singh Reo, Chief Minister of Orissa, presented to the Orissa Legislative Assembly on March 12 the state's budget for 1969-70 which disclosed a revenue deficit of Rs 12.28 crores at the existing rates of levies. With a deficit of Rs 13.65 crores in the capital account, the overall deficit in the budget at existing rates of taxation is estimated at Rs 25.93 crores. Presenting the budget, Mr Singh Deo, who also holds the Finance portfolio, announced a number of additional resource mobilisation measures, estimated to yield Rs 2.75 crores during the ensuing year to reduce the anticipated deficit. The Chief Minister said that the state's budget for the current year, 1968-69 was likely to close with a surplus of Rs 25 lakhs on the assumption that an ad hoc assistance of Rs 12 crores would be available from the union government. He said, when the estimated yield of the additional resource mobilisation measures was taken into account the state's revenue deficit for 1969-70 came down to Rs 23.18 crores. With an opening credit balance of Rs 25 lakhs, the accounts for the year were, therefore, likely to close with an overall debit balance of Rs 22.93 crores. Total revenue receipts during 1969-70 have been estimated at Rs 105.73 crores and expenditure on revenue account was expected to be Rs 117.06 crores.

West Bengal

West Bengal's budget estimates for 1969-70 presented in the state assembly by the Chief Minister, Mr Ajoy Kumar Mukherjee, on March 10 revealed an overall deficit of Rs 35.36 crores, including Rs 19.78 crores on revenue account. During the next year revenue receipts are to be Rs 234.77 crores against a revenue expenditure of Rs 254.55 crores. Since there would be a surplus outside the revenue account of Rs 7.05 crores, the net deficit on revenue account would be Rs 12.72 crores. As the year 1969-70, would start with a negative opening balance of Rs 22.63 crores, the total deficit in the next year's budget is expected to be Rs 35.36 crores. The capital expenditure during 1969-70 is put at Rs 28.99 crores, which is mostly to be met from loans. Next year, the West Bengal government hopes to raise Rs 75.38 crores from loans and pay off Rs 51.01 crores on previous loans, leaving a net amount of Rs 24.37 crores for development expenses. Receipts from the contingency funds and public accounts are put at Rs 360.12 crores against the expenditure under these heads at Rs 348.75 crores.

Jammu & Kashmir

A Rs 9.20-crore deficit budget, estimating revenue receipts at Rs 58.21 crores and expenditure at Rs 67.41 crores, was presented to the Jammu and Kashmir Assembly by the Finance Minister, Mr G. L. Dogra, on March 10. The estimated expenditure of Rs 67.41 crores includes Rs 7.20 crores due for payment to the union government on account of interest charges. The receipts include an amount of Rs 5.65 crores as sanctioned increase in the grants-in-aid on the basis of the interim award of the Finance Commission. The Finance Minister said after taking credit for the additional resource mobilisation, the gap on the revenue account would still be Rs 8.20 crores. Resource mobilisation effort includes the launching of a scheme of lotteries which is expected to yield about Rs 10 lakhs. The Finance Minister estimated receipts on capital account at Rs 19.93 crores. An equivalent amount has been provided for disbursement under this section which includes Rs 4.20 crores to be paid to the union government towards repayment of principal against Rs 8.89 crores falling due on this account excluding arrears. On the expenditure side on revenue account provision has been made for committed expenditure on the three annual plans.

Bihar

The Bihar government's budget for 1969-70, placed in the state assembly on March 13 by the Chief Minister, Mr Harihar Prasad Singh, showed a deficit of Rs 41.72 crores. The Chief Minister said that as it would not be possible to have the budget passed before March 31, 1969, it had become necessary to seek a "vote-on-account" to meet the expenditure during the first six months of the next financial year. The following

are the details in crores of rupees: Revenue receipts 180.75; revenue expenditure 211.88; deficit on revenue account 31.13; capital receipts 211.50; capital expenditure 222.09; deficit on capital account 10.59; total deficit 41.72. The budget did not contain any taxation proposals to meet the deficit. The Chief Minister stated that pending concrete proposals to be formulated by the Finance Committee of the government which was studying the existing tax structure and measures for mobilisation of additional resources, the government intended to take some economy measures. He said that effective steps would also be taken to enhance receipts from agricultural income-tax, sales tax, state excise duties and other taxes by improving the efficiency of the machinery for assessment and collection of taxes. He announced that the government also proposed to start lotteries to mobilise additional resources for economic development.

ITALIAN TRADE TEAM

A number of proposals for Italian collaboration in joint ventures in India have emerged as a result of the discussions that the 31-member Italian trade and business delegation has had in this country. The leader of the delegation, Senator Paolo Berlanda, revealed in New Delhi recently on the conclusion of the delegation's visit, that the prospects for expanding Indo-Italian trade and co-operation were bright. One of the members of the delegation, who is a leading manufacturer of shoes, has already drawn up a project for collaboration with a Madras firm, Srinivas and Co., for processing of leather and manufacture of the uppers of shoes in India. While Indian raw materials, equipment and manpower will be used, such machinery as is not available in India will be supplied by the Italian collaborator. In addition, the Italian company will provide the know-how. The products of the Madras venture will be exported not only to Italy but also to other countries. The Madras factory will be equipped to manufacture 15,000 pairs of shoes every day. Another proposal for collaboration is to set up a unit for the manufacture of carburettors with Italian assistance near Poona. Italy will also collaborate with the Fertiliser Corporation of India for setting up a urea plant in Ceylon. Senator Berlanda stated that other possibilities under consideration included manufacture of axle boxes for railways and some machine tools for special use. The Italian delegation did not, however, appear to evince the same interest in import of Indian equipment and services for Italian industries. In fact, the Commerce Secretary, Mr K. B. Lall, told the delegation that this country could provide material and expertise in fields like construction, tobacco-based industries, food processing and supply of raw materials for the Italian steel industry. Asked for its reaction, the Italian delegation said the suggestions would be given due consideration. The delegation thought that Indian industry had not taken adequate steps to publicise its products abroad and sell them at competitive prices.

EXPO'70

It has been decided to give multi-media publicity support to our participation in Expo'70, which is scheduled to be held at Osaka, Japan, in March, 1970. Extensive use will be made of films, visual publicity material, radio and TV programmes to project the image of modern India. The emphasis will be on unfolding a picture of this country with our rich cultural heritage, unity in diversity, the overall effort and the possibilities of helping other developing countries on the basis of mutual advantage. Our cultural links with other Asian countries will be stressed. These decisions were taken at a meeting of representatives of various publicity organisations which was held recently under the chairmanship of the union Minister of State for Information and Broadcasting, Mr I. K. Gujral. The Minister stated that participation in Expo'70 should be taken as a challenge and every effort should be made to project the correct image of the country. He added that he would like every member at the Indian pavilion, whatever his or her status, to receive an intensive briefing before going to Japan.

LEIPZIG SPRING FAIR

Trade organisations of the German Democratic Republic revealed keen interest in many of our products on display in the Leipzig Spring Fair, according to information reaching here. A wide range of engineering products, such as machine tools, hand tools, steel products, tipper, automobile parts, wire ropes, diamond cutting tools, medical and surgical instruments, drugs, pharmaceuticals and chemicals, tyres, tubes and paper products, besides textiles, coir, jute and linoleum manufactures, food products and handicrafts were on display. Our participation in the Fair was arranged by the Indian Council of Trade Fairs and Exhibitions. Nearly 100 firms and organisations from this country took part in the Fair. Among the distinguished visitors to our pavilion were the Deputy Prime Minister of German Democratic Republic and the Minister of Economy of the Government of Iraq.

GERMAN FOOD AID

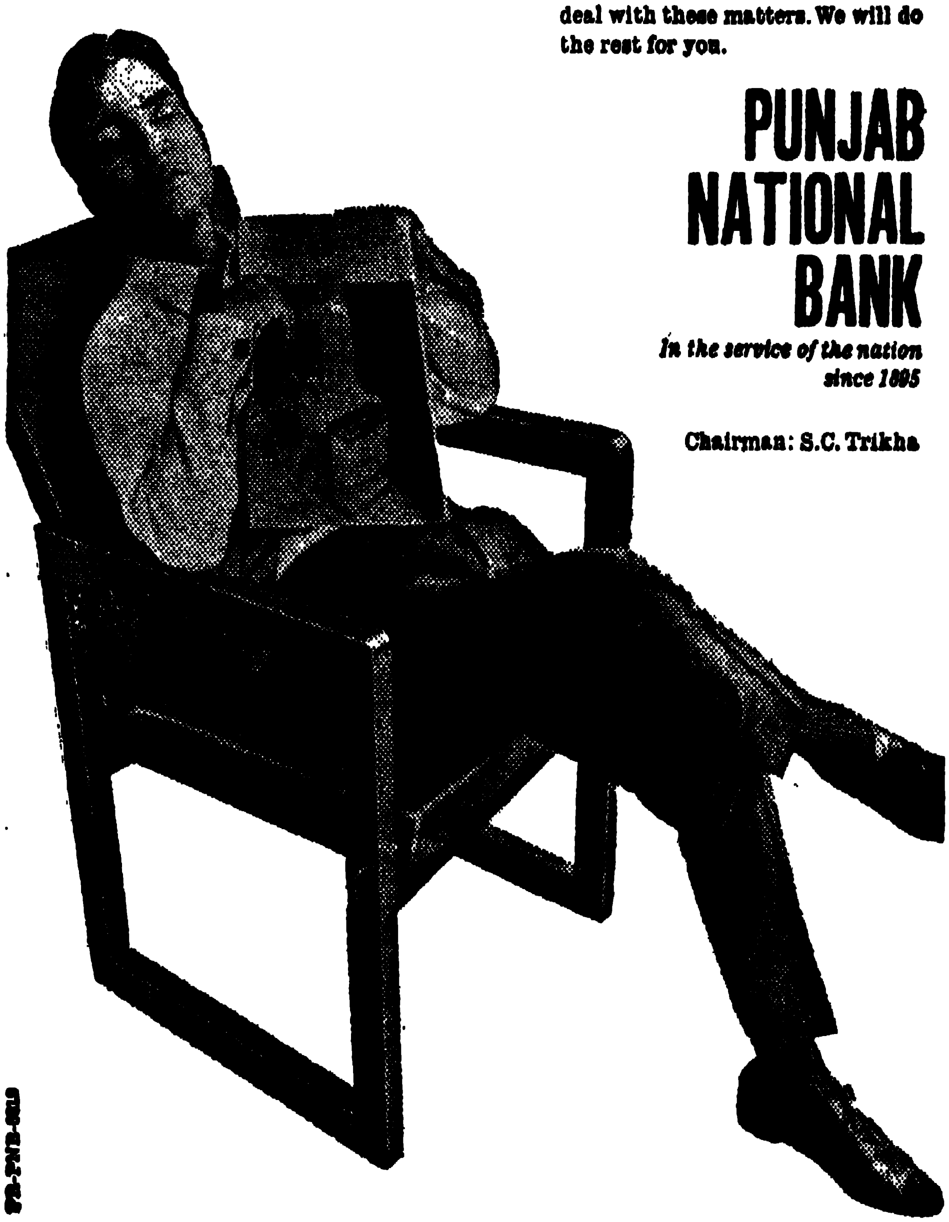
The Federal Republic of Germany will put at the disposal of the Government of India 90,000 tons of wheat or wheat products. This grant has been made in accordance with the decisions of the Ministerial Council of the European Economic Community on March 4, 1969. Out of the total, 64,000 tons will be subject to bilateral arrangements and 26,000 tons will be the German contribution to the multilateral EEC grant. On the basis of the world market price and incidental costs the total value of this grant aid is approximately Rs 4.3 crores. An agreement between the German and Indian governments concerning the bilateral food aid is envisaged, and there will also be a treaty between the European Communities and the Indian government concerning the multilateral part of the transaction involving 80,000 tons of wheat or wheat products. This German and EEC food aid is part of the International Grains Agreement 1967 (Kennedy Round). The Food Aid Convention which came into force on July 4, 1968 provides for an annual amount of 4.5 million tons of foodgrains to be given as grant aid to developing countries over a period of three years from 1969.

AMERICAN EXPRESS

A 25-per cent increase in the quarterly dividend on American Express Company common shares was approved by its board of directors at its meeting recently, according to an announcement by Howard L. Clark, Chairman and Chief Executive Officer. The board of directors authorised payment of the new quarterly dividend on April 1, 1969. In 1968 the company split its shares three-for-one and increased the dividend by 71.4 per cent. The newly declared dividend is three times that being paid prior to 1960. With the January 1969 dividend payment, American Express Company observed the 100th consecutive year in which dividends have been paid to its holders of common shares. The board also authorised payment on April 1, 1969 of 57.5 cents per share on its 2.30 preferred shares series, and 37.5 cents per share on the 1.50 preferred series.

INDIAN OIL CORPORATION

The Indian Oil Corporation made a profit of Rs 10.83 crores last year against Rs 6.26 crores in 1966-67, according to the annual report of the Corporation. IOC also increased its dividend by one per cent in the year under review. The report stated that IOC's marketing division now held the first position in the marketing field in India. All the three state-owned refineries—Gauhati, Barauni and Gujarat—processed more crude oil than in the previous year. The corporation exported 380,188 tonnes of petroleum products against 18,772 tonnes the previous year. The corporation also increased its sales by 32 per cent.



Company Affairs

UNITED COMMERCIAL BANK

MR R. B. SHAH, Chairman, the United Commercial Bank Ltd, revealed that during 1968, the Silver Jubilee year, the deposits of the bank touched a figure of Rs 240.58 crores as against Rs 215.14 crores at the end of 1967. In his statement circulated to the shareholders in connection with the annual general meeting to be held on April 9, 1969, he added, that there has been a tendency with the depositors to take advantage of higher rate of interest available on time deposits. Advances of the bank, including bills purchased, increased only by Rs 7.30 crores against Rs 9.07 crores in the previous year and as much as Rs 25 crores in 1966. Consequently the credit ratio declined to 60 per cent at the end of 1968, as against 70 per cent at the and of 1965. The chairman added that the bank had given priority to certain sectors for advances. In the field of exports, for instance, limits sanctioned for packing and post-shipment finance increased during the year by Rs 5 crores to Rs 12 crores. This, however, was in addition to the regular purchase of export bills. Similarly in the case of agriculture, sanctioned limits were reached at a level of Rs 1.20 crores. After the end of the year under review, a further amount of Rs 46 lakhs has been sanctioned for energising of wells in Gujarat. The chairman added, that credit to plantations amounting to Rs 6 crores continued to be extended. This bank also offered special assistance to the extent of Rs 60 lakhs in the flood-affected districts of Surat and Jalpaiguri.

Mr Shah pointed out that while the banks were generally prepared to advance more money to the priority sector, the small industrialist found himself in a bad way owing to two years of recession. There had, therefore, been few applications for loans. Secondly loans to the agricultural sector were essentially seasonal even in the case of agricultural equipment. The banks had no experience of, nor the organisation for, farm financing and agricultural inputs had recently come on the market. The bank, therefore, had made beginnings by extending assistance to the rural sector in a variety of other ways such as investment in debentures of land mortgage banks and loans to state electricity boards for rural electrification and energising of wells. The Ucobank, the chairman added, had joined other banks to establish the Agricultural Finance Corporation which was engaged in the finance of agriculture on its own or in participation with other commercial banks, mostly in cases involving considerable finance which could not be taken up by any individual bank.

The working results of the United Commercial Bank Ltd for the year ended December 31, 1968, showed a net profit of Rs 85.31 lakhs after providing for taxes and for all known and anticipated charges, and including Rs 1.91 lakhs brought forward from the previous year's accounts. The directors have transferred Rs 17 lakhs to the reserve fund, Rs 22.40 lakhs to the special reserve and have appropriated Rs 28.50 lakhs to bonus to staff. The interim dividend at the rate of six per cent, subject to deduction of tax, absorbed Rs 16.80 lakhs. The directors have now recommended the payment of a final dividend at the rate of eight per cent, subject to tax, raising the dividend for the year to 14 per cent. The final dividend, it is estimated, will absorb Rs 22.40 lakhs and will be paid out of the special reserve.

At the end of 1968, the bank had 323 branches—253 in banked centres and 61 in unbanked centres. The number of branches in foreign countries totalled nine. In 1968, the bank opened 47 new branches (26 in banked centres and 21 in unbanked centres) as against 26 branches only in 1967. The bank also participated in the formation of the State Bank of Sikkim sponsored by the Government of Sikkim by subscribing 20 per cent of its capital. The collaboration agreement envisages the nomination of one director to the State Bank of Sikkim by the United Commercial Bank; the managing director of the Sikkim Bank has been appointed with the consent of the bank. The Agricultural Finance Corporation Ltd was formed by commercial banks in 1968 with an authorised capital of Rs 100 crores and subscribed capital of Rs 10 crores. The bank has subscribed to the capital of the corporation by taking up 775 shares of Rs 10,000 each on which half the amount has been called up and paid.

The record of the last decade shows that the deposits of the bank more than trebled from Rs 78.28 crores in 1958 to Rs 240.58 crores in 1968. The number of branches also multiplied by more than 2½ times from 123 in 1958 to 323 in 1968.

SURAT ELECTRICITY

The Surat Electricity Company Ltd, Bombay, will shortly enter the market with an offer of 15,000 (9.5 per cent free of company's tax but subject to deduction of taxes at source at the prescribed rate) cumulative redeemable preference shares of Rs 100 each at par for cash payable at Rs 50 on application and Rs 50 on allotment, and 85,000 (7¾ per cent subject to tax) debentures of Rs 100 each at par for cash payable in full on application. The company has an authorised capital of Rs 2 crores, consisting of 70,000 ordinary shares of Rs 100 each, 5,000 cumulative preference shares of Rs 100 each and 125,000 (unclassified) shares of Rs 100 each; out of which 70,000 equity shares and 5,000 6½ per cent (free of income-tax) cumulative preference shares are subscribed and fully paid-up. The entire new issue is underwritten by the Life Insurance Corporation, the Unit Trust of India, the Industrial Credit and Investment Corporation of India Ltd, the United Commercial Bank Ltd, and Champaklal Devidas, Bombay.

The company is engaged in the generation and distribution of electricity to consumers within the area comprising the limits of the City Municipality of Surat, including Hope Bridge over the Tapti River, and so much of the area subject to the control of the Surat District Local Board as lies on the left bank of the Tapti River, and is within a radius of three miles from the Surat City Municipal offices. The electricity distributed by the company to its consumers within the area of supply is partly generated at its own power station and partly purchased in bulk from the Gujarat Electricity Board. Bulk supply is delivered to the company at three points within its area. The overall area served by the company is about 50.6 sq. kilometres (19.5 sq. miles). The company does not propose to acquire any new business out of the proceeds of the issue but will utilise the same for financing capital expenditure on power distribution facilities within the area of supply of the company.

GOODYEAR

Mr Fakhruddin Ali Ahmed, Minister for Industry, Internal Trade and Company Affairs, laid the foundation of Goodyear's new cycle tyre plant and the second automotive tyre plant recently at Ballabgarh, Haryana. When ready, Goodyear's new cycle tyre plant with an installed capacity of two million tyres and tubes will augment the country's bicycle tyre production substantially. The bicycle population of the country which is just over 16 million is growing at the rate of 2.2 million per year. Our bicycle tyres have also great export potentials in the neighbouring markets. The new cycle tyre plant will go into production in winter this year. With the installation of the second automative tyre plant, Goodyear's total installed capacity of tyres and tubes will be 513,000 units per year. The company plans to give more emphasis on the production of tractor tyres in view of the increased farm mechanisation during the fourth five-year Plan. The entire construction programme will require a total investment of more than Rs 13 crores, which will be partially financed by the retained

earnings of the company and from the long and short-term loans. It is expected that the new automative tyre plant will start functioning from early next year.

ESCORTS

The directors of Escorts Ltd have recommended a higher dividend of 13 per cent for the year ended 1968. In the previous year, the dividend for the whole year worked out to 10 per cent. The payment of higher dividend also covers the bonus issue made last year. The dividend to be paid amounts to Rs 35.03 lakhs and it will be paid out of the reserves. There has also been a 58 per cent rise in the company's sales from Rs 13 crores in 1967 to Rs 20.55 crores in 1968. The net profit was around Rs 177 lakhs. The profit has been arrived at after providing for depreciation at Rs 46.78 lakhs, interest Rs 53.82 lakhs and managing agents' commission Rs 10.27 lakhs. Provision for taxation has been increased from Rs 26 lakhs to Rs 77 lakhs, thus leaving over Rs one crore which has been transferred to the reserves and surplus. The significant rise in sales and profits is mainly due to increase in the sale of tractors and agricultural implements. There has been a substantial increase in the manufacture and sale of other products of the company, including motor cycles, piston assemblies etc. The company has entered for the first time some of the African and West Asian markets for the export of its products. The export earnings which have been doubled in 1968 over that of 1967 are likely to show even better results during the current year.

PROTEIN PRODUCTS

The Protein Products of India Ltd entered the capital market on March 20, with an issue of Rs 60.97 lakhs consisting of 429,989 equity shares and 179,700 cumulative redeemable preference shares, both of Rs 10 each. The subscription list will close on April 3, or earlier at the discretion of the directors, but not earlier than March 22. The company has an authorised capital of Rs 275 lakhs and subscribed and fully paid up capital of Rs 59.03 lakhs. The entire issue now offered for public subscription is underwritten. The company was promoted by Rallis. India Ltd, Aspinwall & Co. Ltd, and Compagnie Rousselot, France, with the main object of manufacture and sale of gelatine, ossein and di-calcium phosphate and generally all kinds of fine and heavy chemicals. The company has entered into technical collaboration with Messrs. Rousselot Kuhlmann of France for the manufacture of the above articles. The company's factory is being located near Ootacamund.

WESTERN BENGAL COAL-FIELDS

The Western Bengal Coal-Fields Ltd entered the capital market on March 17 with 15,000 (9.5 per cent, free of company's tax but subject to deduction of taxes at source at the prescribed rates) redeemable cumulative preference shares of Rs 100 each at par. The company has an authorised capital of 1,000,000 shares of Rs 10 each, 85,000 unclassified shares of Rs 100 each and 15,000 (9.5 per cent) redeemable cumulative preference shares of Rs 100 each. The entire issue now offered for public subscription has been underwritten by several financial institutions. The proceeds of the issue are intended to be utilised for the purposes of financing the expansion programme of the company. Pits are being sunk in Nakrakonda area to equip them for an ultimate raising of 30,000 tonnes per month.

DUNLOP

During the year ended December 31, 1968, Dunlop India Ltd recorded increased output of both its factories, with continued high demand for its products. The total income comes to Rs 71 crores, showing an increase of 8.8 per cent over 1967. Sales alone amount to Rs 70.71 crores against Rs 65.00 crores. The net profit, before tax and development rebate reserve, is shown higher at Rs 6.01 crores against Rs 5.16 crores for the preceding year. A sum of Rs 100.38 lakhs is provided for depreciation, Rs 3.29 crores for taxation and Rs 26.75 lakhs for development rebate reserve leaving a net profit for disposal of Rs 2.46 crores. The directors have proposed a final dividend of 10 per cent, making a total of 17½ per cent for the year, same as in 1967. Total preference, ordinary and the proposed dividends will absorb Rs 179.60 lakhs.

E.I.D.-PARRY

The group annual report of EID-Parry Ltd for the year ended September 30, 1968, disclosed that the group has maintained good progress. The company produced during the year 44,910 tons of sugar which constituted a record, although the recovery was lower due to the longer duration of the season and adverse climatic conditions. The report stated that sales of spirit, carbonic acid and chemicals continued to be satisfactory. Despite competition, a higher level of sales was achieved in the ceramics section. Fertiliser sales also registered an increase of two per cent in spite of unfavourable climatic conditions in a large portion of the marketing area. The Ennore ammonium sulphate plant was commissioned during the year and over 10,000 tons were produced. Ammonium sulphate production was more than 40,000 tons and superphosphate output was maintained at the previous level. The company continued to participate in the seeding programme for the Madras Fertiliser Factory which is now under construction. The construction of a second insecticide formulation unit is expected to be completed in the current year. The company's working shows that the total turnover increased to Rs 67.11 crores from Rs 56.10 crores in the previous year. The contribution to the net trading profit from sales of its manufacture increased from 49 per cent in 1967 to 65 per cent during the year under review, while that of the merchandising business came down from 47 per cent to 29 per cent.

AMBIKA

The directors of Ambika Mills Ltd have proposed a dividend of Rs 33 per share, less tax, for the year 1968 against Rs 36 per share in the previous year. This is on the increased capital of the company following the bonus issue. The company's sales during the year have risen to Rs 15.06 crores while the gross profit is more or less the same as last year at Rs 2.06 crores. After providing Rs 67.48 lakhs for depreciation, Rs 11.37 lakhs for development rebate reserve and Rs 67 lakhs for taxation the net profit works out to Rs 58.14 lakhs. Other allocations include Rs 12.50 lakhs to debenture redemption reserve. The proposed dividend will claim Rs 44.88 lakhs.

RECORDS AND STATISTICS

Decline and Recovery in Output of Major Industries in 1967 and 1968

Industries showing a decline in output in 1967	Percentage fall
Consumer goods	
Cotton textiles (Mill)	3.06
Sugar	38.91
Cigarettes	6.84
Matches	4.68
Dry cells	3.45
Sewing machines	10.98
Water & electric meters	8.51
Hurricane lanterns	7.35
Incandescent filament lamps	0.53
Flour milling	12.16
Confectionery	16.55
Intermediate goods	
Sttel pipes & tubes	16.65
Iron and steel	2.09
Heavy structurals	62.29
Capital goods	
Looms (calico) (d)	30.83
Ring spinning frames (d)	18.80
Trucks (petrol & diesel)	14.96
Haulages	44.56
Road rollers	42.85
Tea machinery	20.06
Conveyors	17.02
Milling cutters	6.92
Threading tools	5.73
Jute machinery (d)	25.00
Hoist blocks	25.77
Cranes (other than mobile)	24.93

Industries showing a decline in output in 1967 but an increase in 1968	Percentage rise
Consumtr goods	
Cotton textiles (Mill) (b)	7.22
Cigarettes	10.46
Dry cells	27.30
Sewing machines	10.56
Water & electric meters	13.95
Incandescent lamps	7.02
Intermediate goods	
Steel pipes and tubes	24.53
Capital goods	
Trucks	6.78
Haulages	85.52
Tea machinery	99.91
Conveyors	25.64
Threading tools	36.02

Industries showing a decline in output in 1968(a)	Percentage fall
Consumer goods	
Sugar (c)	4.28
Matches	1.17
Hurricane lanterns	41.44
Air-conditioners	23.77
Flour milling	6.00
Confectionery	23.33
Intermtdiate goods	
Steel castings	13.63
Conductors	12.25
Refractories	9.61
Sheet glass	1.69
Paints and varnishes	15.51
Heavy structurals	30.39
Iron and steel	15.51
Capital goods	
Railway wagons	32.40
Diesel engines	2.86
Transformers	13.30
Road rollers	80.54
Electric motors	8.78
Milling cutters	7.23
Lifts	23.42
Hoist blocks	23.66
Cranes	24.93

(a) Data relate to the period January-September 1968. (b) Data relate to the period January-October, 1968. (c) Data relate to the period January-May 1968. (d) Data not available.

Source: National Council of Applied Economic Research.

Output and Sales(a) in Selected Major Industries

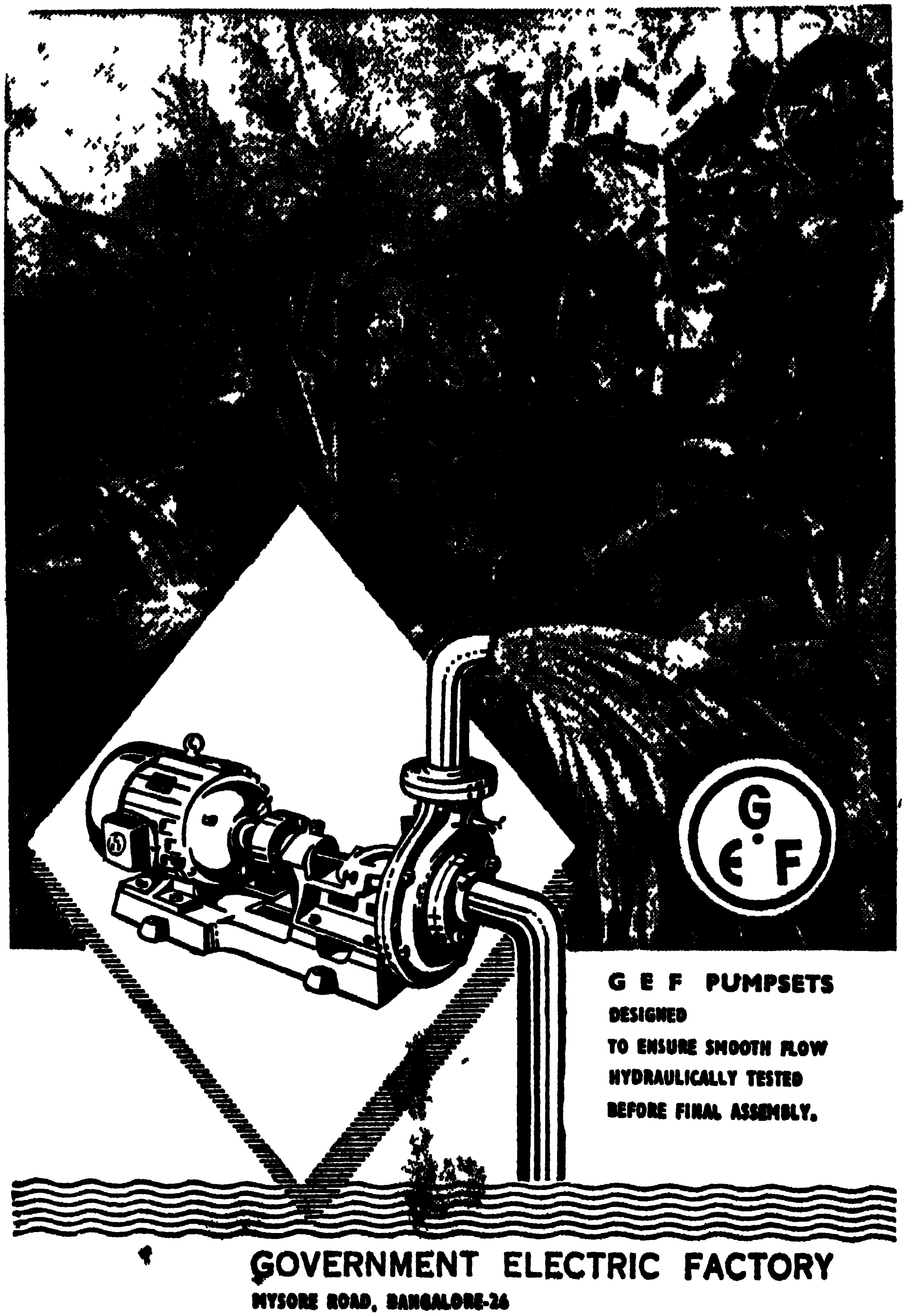
Industry	1965*		1966*		1967*		1968b*	
	Output	Sales	Output	Sales	Output	Sales	Output	Sales
Consumer Goods								
Rubber footwear	+12.75	+14.22	— 1.58	— 0.01	+ 5.29	+ 4.92	+ 4.47	+ 0.93
Electric fans	+26.78	+26.36	—10.77	— 3.40	+ 6.87	+ 3.02	+ 3.55	+5.37
Hydrogenated oil	+18.82	+15.79	—15.90	—13.90	+ 5.59	+ 8.53	+26.0c	+ 25.72c
Cotton textiles (Mill)	— 1.45	— 2.14	— 7.83	— 4.33	— 3.06	— 4.68	+ 7.22d	+ 7.02d
Sugar	+24.18	—10.37	+ 7.80	+29.17	—38.91	—28.81	— 4.28c	—25.02
Cigarettes	+17.18	+18.33	+ 8.09	+ 8.68	— 6.84	— 7.51	+10.46	+12.41
Matches	+ 5.64	+ 5.22	+ 1.85	+ 1.81	— 4.68	— 4.34	— 1.17	— 1.09
Dry cells	+ 4.94	+ 6.35	+ 9.27	+ 5.62	— 3.43	+ 0.77	+27.30	+ 9.57
Sewing machines	+65.06	+54.46	— 2.49	— 4.93	—10.98	—11.34	+10.56	+5.53
Water and electric metres	— 8.80	+ 5.30	— 5.83	— 8.69	—8.51	—14.30	+13.95	+15.52
Hurricane lanterns	+ 6.46	+10.21	— 8.81	—16.70	— 7.35	+7.35	—41.44	—47.60
Incandescent lamps	+ 0.66	— 0.62	+12.05	+ 9.80	— 0.53	+ 1.64	+ 7.02	+ 7.21
Flour milling	—11.81	—11.47	— 7.10	— 7.75	—12.16	—12.14	— 6.00	— 5.91
Confectionery	+ 0.46	+ 0.34	+ 3.15	+ 2.17	—16.55	—15.84	—23.33	—24.69
Air-conditioners	+10.49	— 0.98	+57.59	+51.60	+18.74	+10.02	—23.77	+26.29
Bicycles	+12.18	+ 7.90	+ 7.91	+ 4.68	+ 2.03	—15.62	+ 8.22	+ 9.57

OUTPUT AND SALES(a) IN SELECTED MAJOR INDUSTRIES

Industry	1965*		1966*		1967*		1968b*	
	Output	Sales	Output	Sales	Output	Sales	Output	Sales
Paper, paperboard and newsprint	+15.67	+14.00	+ 8.23	+ 7.46	+ 4.16	+ 8.10	+ 5.83	+ 3.22
Radio-receivers	+23.37	+27.03	+22.20	+15.90	+19.86	+21.91	+55.70	+55.45
Refrigerators	+ 3.04	— 8.89	+23.31	+21.60	+ 4.41	+15.31	+28.70	+40.17
Motor cycles and scooters	+22.73	+19.50	+ 2.02	+ 3.17	+19.20	+22.59	+21.45	+19.98
Cars	+ 6.71	+ 6.04	+11.33	+12.20	+20.83	+18.88	+13.23	+14.17
Biscuits	+ 3.79	+ 3.25	+24.17	+23.95	+ 8.82	+ 8.83	+ 7.63	+ 5.20
Soap	+ 3.83	+ 3.01	+ 3.39	+ 3.60	+ 3.97	+ 3.62	+ 3.46	+ 3.41
Intermediate Goods								
Sulphuric acid	— 0.40	— 1.09	—11.05	— 9.90	+33.47	+32.64	+22.14	+19.90
Steel castings	+ 8.52	+20.23	— 8.97	—14.36	+ 0.69	— 9.14	—13.83	+10.28
Storage batteries	— 2.82	— 1.73	— 3.38	— 4.09	+11.00	+11.91	+10.59	+ 9.45
Automobile tubes	+ 5.17	+ 8.03	— 6.40	— 7.36	+26.41	+25.82	+ 2.97	+ 7.34
Jute manufactures	+ 5.00	+ 4.80	—16.17	—15.84	+ 3.32	+ 3.78	—28.20d	— 0.52d
Paints and varnishes	— 1.54	+ 1.95	— 4.09	— 4.66	+17.28	+17.23	—15.51	—12.56
Heavy structurals	N.A.	N.A.	—11.08	— 6.58	—62.27	—60.77	—30.39	—38.96
Steel pipes and tubes	+ 8.95	+ 8.69	+ 3.94	— 1.60	—16.65	—19.02	+24.53	+15.48
Iron and steel	+ 4.90	+ 4.60	+ 4.49	+3.72	— 2.09	— 0.47	—15.51	—
Conductors	—12.09	— 5.88	+10.33	+ 6.05	+38.28	+34.10	—12.25	— 8.38
Refractories	Nil	+ 5.86	+ 5.06	+ 6.10	+ 3.49	+ 2.07	— 9.61	— 4.76
Sheet glass	—13.08	— 5.82	+51.62	+28.20	+15.95	+38.70	— 1.69	+ 2.99
Cement	+ 9.16	+ 9.26	+ 4.49	+ 4.26	+ 2.32	+ 2.56	+ 3.25	+ 2.93
Caustic soda	+14.32	+15.46	+ 7.39	+ 5.52	+ 8.98	+11.72	+28.74	+28.78
Soda ash	+14.00	+17.65	+ 8.62	+ 5.58	+ 1.75	+ 4.70	+12.24	+ 8.06
Automobile tyres	+10.34	+11.66	Nil	— 0.03	+ 6.38	+ 7.45	+ 9.80	+10.02
Fertilizer (N)	+ 3.92	+ 4.62	+ 8.78	+ 1.87	+28.56	+37.60	+35.85	+30.79
Fertilizer (P2O5)	— 0.01	+ 4.89	+ 7.99	+ 4.56	+32.60	+28.60	+ 3.35	— 1.30
Coal	+ 8.53	+ 9.64	+ 1.55	— 0.45	+ 0.87	+ 2.10	+ 2.00e	+1.92e
Capital Goods								
Hacksaw blades	+ 6.50	+ 0.84	—42.80	—27.28	+44.00	+15.25	+27.31	+31.46
Railway wagons	+ 3.77	+ 0.60	—33.41	—29.70	+ 9.92	+ 4.80	—32.40	—32.89
Trucks	+ 7.57	+ 6.12	— 8.27	— 6.50	—14.96	—14.36	+ 6.78	+ 1.73
Haulages	—47.14	—47.14	— 6.76	— 6.76	—44.56	—44.56	+85.52	+85.62
Road rollers	+ 6.82	+ 6.75	— 3.19	— 7.84	—42.85	—38.20	—80.54	—64.19
Tea machinery	+41.16	+41.16	— 3.11	— 3.11	—20.66	—20.06	+99.91	+99.91
Hoist blocks	N.A.	N.A.	—35.76	+ 4.69	—25.77	—21.32	—23.66	+151.54
Threading tools	+15.55	+ 9.63	—15.83	— 9.69	— 5.73	—14.77	+36.02	+50.26
Bandsaw blades	+126.60	+73.10	—31.03	—47.27	+215.05	+273.78	—25.48	— 6.56
Cranes	N.A.	N.A.	+16.51	+23.26	—24.93	—27.45	—24.95	—37.25
Conveyors	—40.18	—40.18	+64.91	+64.91	—17.02	—17.02	+25.64	+25.64
Milling cutters	+ 6.13	— 0.07	+17.41	+11.31	— 6.92	— 7.82	— 7.23	+24.70
Lifts	N.A.	N.A.	+20.00	+51.56	Nil	+ 0.93	—23.42	—29.53
Power driven pumps	+29.65	+28.88	+30.32	+29.05	+ 6.12	+ 7.99	—20.43	—26.52
Transformers	+30.40	+30.09	+11.00	+11.63	+ 9.58	+ 7.19	—13.20	— 8.54
Sugar machinery	— 1.48	— 1.48	+ 7.50	+ 7.50	+ 2.37	+ 2.37	— 0.66	— 0.66
Electric motors	+29.32	+29.46	+14.27	+17.66	+ 4.47	— 2.29	— 8.78	— 3.49
Diesel engines	+23.00	+21.57	+18.12	+17.54	+ 3.63	+ 1.24	— 2.86	+ 6.49
Steel files	+37.47	+40.00	+28.21	+21.35	+ 5.31	+ 3.07	+15.01	+38.14
Cement machinery	N.A.	N.A.	+13.10	+13.10	+16.38	+16.38	+37.92	+37.92
Ball & roller bearings	+40.19	+37.38	+11.14	+15.53	+ 9.86	+ 4.35	+19.61	+27.08
Tractors	+132.74	N.A.	+20.53	N.A.	+45.11	N.A.	+26.49	+41.33
Looms	—25.80	—33.61	—14.01	—12.99	N.A.	N.A.	N.A.	N.A.
Ring spinning frames	+ 7.30	+10.22	—38.79	—25.33	N.A.	N.A.	N.A.	N.A.

(a) Sales are equal to the output of calendar year and change in stock in the last month of each year.
(b) Data relate to the period Jan.-Sept. 1968.
(c) Data relate to the period Jan.-May 1968.
(d) Data relate to the period Jan.-Oct 1968.
(e) Data relate to the period Jan.-Aug. 1968.
* Percentage change over the previous year.

Source: National Council of Applied Economic Research.



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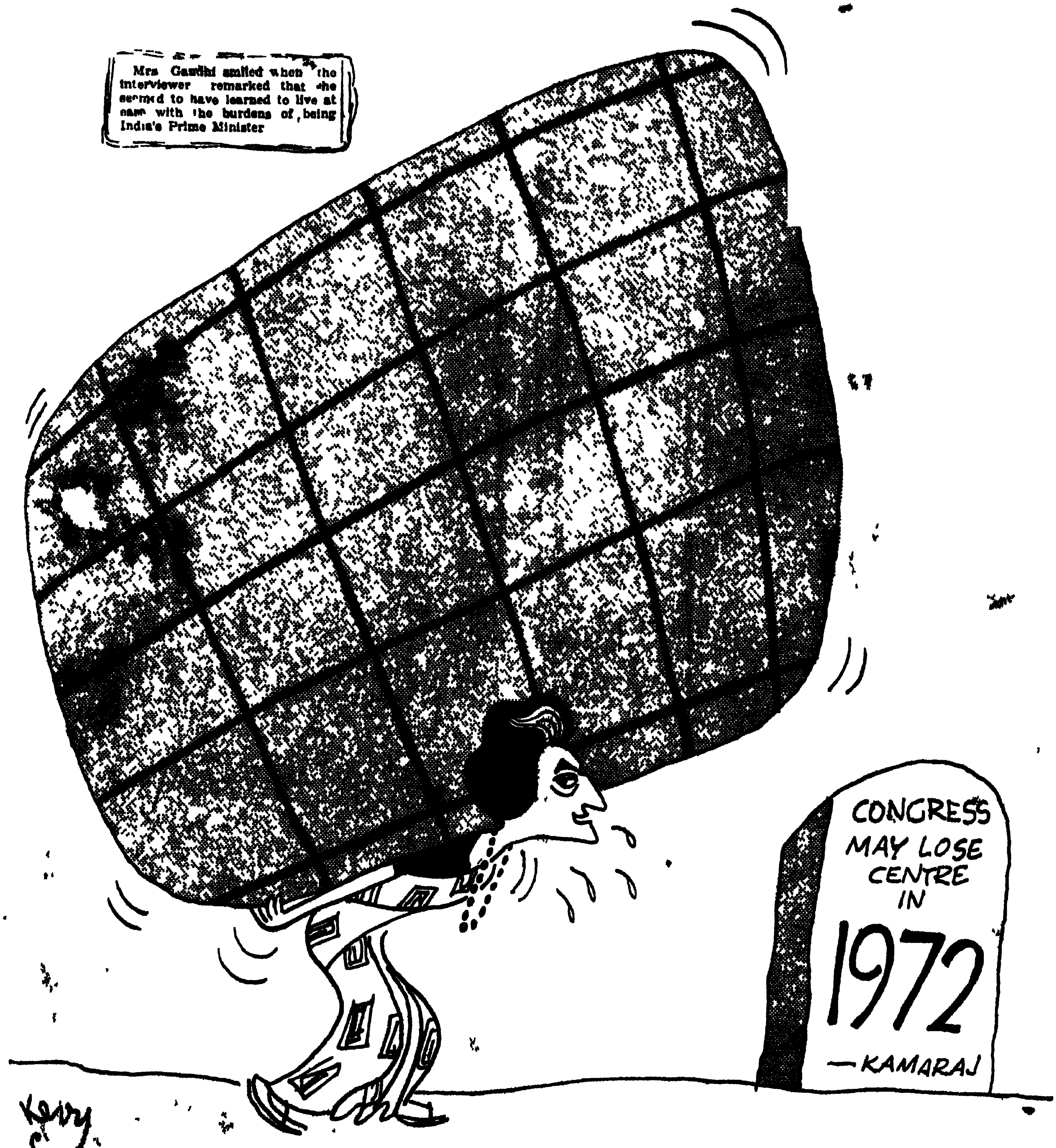

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Democracy Without Adjectives

THE UPHEAVAL in Pakistan is a genuine popular uprising, the Bhuttos and the Bhashanis being largely irrelevant. Its obvious target, which is the personal autocracy of Field Marshal Ayub Khan, is not its only one; nor is it its most important. The challenge thrown up by the people's revolt, from Karachi to Dacca, is a bullet fired at the philosophy and practices of the Field Marshal's basic democracy. Once again, it has been shown that the democratic way of life, like a woman's chastity, admits of no qualifying adjective. The concept of basic democracy is, at its best, an arrogant assumption that the people should qualify for democracy by going through a period of probation and at its worst a cynical political front for a dictatorship founded essentially on the loyalty and the support of the armed forces. Not only has this front been breached now, but the assumption also has been shattered.

To the storm that is now raging in Pakistan many forces have undoubtedly contributed. The venality of an essentially irresponsible autocratic regime must certainly take its share of the blame. The delay and default on the part of this regime in recognising the grass-root urges in East Pakistan towards the rights and privileges of equal citizenship have also been a major determinant. But what has been far and away the most decisive factor is, quite simply, the belief of the men and women of Pakistan that they have a right to democracy unqualified by adjectives.

It is quite possible that, in coming to this conclusion, they have not been uninfluenced by the political history, of the last 22 years, of our country which is their neighbour. In the days when the Ayub regime seemed to some to be the perfect answer to the problems of political stability in developing countries newly freed from colonial rule, the question used to be asked whether our country could not profitably take a leaf out of Pakistan's book. This question has been answered now in a way different from what might have been anticipated by those who most readily raised it. There is, however, still one more question which awaits an answer. Having rejected basic democracy, will the people of Pakistan now be able to proceed towards the real thing? The mass uprisings and the violent defiance of authority which have humbled the Ayub regime are perhaps inevitable in their context. It is in the nature of autocracy that there can ordinarily be no orderly transition. This means that an extraordinary effort is now demanded of the people of Pakistan if the initial and legitimate gains of their revolt against autocracy are not to be lost to chaos. There is also the other danger that Field Marshal Ayub Khan may have retired only in order that he might come back and fight another day. It is to be hoped that now, in its hour of greatest need, Pakistan will throw up leaders of vision, wisdom and courage who could and would beckon their fellow-citizens to the path of constitutionalism and thereby prevent the people's uprising from degenerating into fratricidal strife. Each and every hour for which the martial law, now clamped on Pakistan, lasts will not only delay the advent of genuine democratic government for which the people of Pakistan are fighting, but may also increase the risk of Gen. Yahya Khan, the Chief Martial Law Administrator, or some other "man of destiny", taking over from where Field Marshal Ayub Khan has been forced to leave off.

To the men and women of our neighbouring country then our best wishes must go for an early ending of the agonies of their political

rebirth. When we thus offer them our sympathy and goodwill, we must do so with humility, since in our own midst doubting and dangerous voices are occasionally raised questioning the wisdom of adult franchise or even the adequacy of the parliamentary form of government. It is natural perhaps for dissatisfaction with the conduct of men or the functioning of institutions to deteriorate under some circumstances or in some minds into a disaffection towards the underlying philosophy itself. This perhaps is what is happening in respect of the democratic form of government in our country. The fault in this case lies, of course, with the political parties and their leaders who are seeking or have assumed responsibility of one kind or another for the good government of our country and the proper working of its democratic institutions. The events in Pakistan are a warning to them not to play with fire.

ECGC Has Done Well

THE SATISFACTORY performance of the Export Credit and Guarantee Corporation Ltd (ECGC) is to be welcomed not only because the corporation is a public sector undertaking, but also—perhaps more—because it means a concrete indication of its having promptly geared its working to cater to the needs of the country's steadily rising exports. At around Rs 1,315 crores, it may be noted, there was an increase in exports in 1968 of some seven to eight per cent over the previous year, and the credit for a part of it at least must go to the commercial banks which financed exports thanks to the packing credit guarantee and the export performance guarantee provided to these banks by the ECGC. There was a rise under both these heads of business underwritten by the corporation from Rs 66.16 crores in 1967 to Rs 108.79 crores in 1968, the packing credit guarantee alone accounting for the bulk of the business (Rs 100.2 crores). The export performance guarantee also made a better showing than in 1967, but then it was introduced as late as in October, 1967. The fact that 37 export performance guarantees involving a maximum liability of Rs 2.76 crores was issued during 1968 shows that the banks have not been slow to avail themselves of the new guarantee facility. In force at the end of that year were 25 such guarantees with a maximum liability of Rs 3.49 crores.

It is not under these two heads alone that the ECGC showing in 1968 was satisfactory. In fact, the corporation recorded all-round progress. While the value of risks covered by the ECGC in that year at Rs 180.25 crores showed a rise of 50.3 per cent over that in 1967, premium income in 1968 at Rs 47.19 crores was even better; it was higher than the premium income of the previous year by as much as 87.3 per cent. Total claims paid by the corporation in 1968 were of the order of only Rs 7.3 lakhs and those paid since the inception of the corporation aggregated Rs 37.3 lakhs. In the case of the ECGC, not all of this, however, would constitute a loss, for it is able to recover at least a part of the loss. Thus, in 1968, the corporation could recover Rs 13.95 lakhs, which is not an inconsiderable amount.

The sharp rise of 87.3 per cent in the corporation's premium income needs an explanation. It reflects the spread of the risk over a longer period as well as the increased extent of the risk necessitated by deferred payments for larger export orders. Large export orders secured under global tenders which India has begun to receive lately generally involve medium and long-term payments, and it is noteworthy that, recognising this, the corporation has already liberalised the terms of its cover. In regard to those who secure large export orders, say, of values in excess of Rs 2 crores in each case, thus, the ECGC has raised the percentage of advances to be made at the post-shipment stage from 66⅔ to 80. Similarly, in order to help the small merchant exporters, the corporation has raised its packing credit guarantee from the normal level of 66⅔ per cent to 90 per cent.

The total risk value of shipments insured during 1968 was Rs 180.25 crores, as against Rs 119.94 crores in 1967, a rise of over 50 per cent. Of this, the risk value of shipments insured under the corporation's standard policies amounted to Rs 71.46 crores, as compared to Rs 53.78 crores in the previous year. It is worth pointing out that this growth was to some extent due to the underwriting of large export contracts for supply of such items as copper conductors, sugar mill machinery, steel pipes and railway wagons, exports of which bid fair to improve further in the coming years. It is estimated that the value of only this business in

1968 was Rs 7.96 crores, or over 11 per cent of the total shipments covered by the ECGC.

The value of all shipments covered by the corporation during 1968 worked out to 5.4 per cent of the total exports of the country, but one need not hasten to conclude that it is a very low coverage, as it does seem *prima facie*. For, all exporters, it must be remembered, do not require or take credit insurance, because either their transactions are covered by letters of credit, or they export to well-known and established customers abroad. If, therefore, the value of these exports is deducted from the overall exports total of about Rs 1315 crores and the value of shipments covered by the ECGC is compared, its share of the country's insurable exports would rise to 15 per cent, which is regarded as a respectable figure indeed in this particular field.

In assessing the performance of the ECGC, the pattern, the direction and the composition of exports are all important. It is common knowledge that not only the emphasis on, but actual export performance of, exports has shifted from traditional to non-traditional items. The volume of business underwritten by the corporation involving exports of engineering goods, for instance, has trebled over the past few years, according to Mr C. M. Ghorpade, the ECGC chief. In 1968, engineering goods accounted for approximately 24 per cent of the total shipments covered (Rs 17 crores); on the other hand, there were sharp declines under exports of jute, tea and leather manufactures. Direction-wise, Europe accounted, as in previous years, for the largest part of the shipments insured by the ECGC (33.7 per cent), followed by Asia (22.6 per cent) and Africa (21.9 per cent). In terms of value, it was Rs 24 crores to Europe, Rs 16 crores to Asian countries, Rs 15 crores to African countries, Rs 12 crores to North America and Rs 72 lakhs to South America.

The claims experience of the ECGC has so far been satisfactory. In 1968, the corporation paid claims amounting to Rs 7.30 lakhs, arising out of exchange transfer delays (Rs 2.22 crores), insolvency (Rs 1.85 lakhs), protracted default (Rs 1.78 lakhs) and other causes (Rs 1.45 lakhs). Since its inception, as stated earlier, the total claims paid aggregated Rs 37.30 lakhs. But of this, the corporation has already recovered Rs. 13.95 lakhs and expects to recover Rs 17.86 lakhs, so that it has had to write off only Rs 5.49 lakhs, which is negligible, in all conscience, for an institution which has completed over ten years of active working sizable volume of business in what is admittedly a very uncertain sphere.

Buoyancy in Bank Money

THE TWO outstanding features of the progress made by banks in this country last year were the sharp increases in the number of branches and the value of deposits. No less than 674 new branches were opened in 1968 as against 406 in 1967 and 356 per year, on the average, in the quinquennium ending 1966. The deposits of scheduled commercial banks crossed the Rs 4,000-crore mark for the first time last year. Despite the partial recovery staged by the economy, not all the bank money has been put to effective use with the result that currently easy money conditions prevail in the market leading to rumours of a possible cut in the Bank rate. These rumours were, however, scotched by Mr L. K. Jha, Governor of the Reserve Bank of India, while addressing a luncheon meeting of the Federation of Indian Chambers of Commerce and Industry in the capital on March 16.

It may be recalled that the Rs 3,000-crore mark in deposits of scheduled commercial banks was crossed in 1966. Earlier, the Rs 2,000-crore level was exceeded in 1962. The pace at which the deposits of scheduled commercial banks have been rising in recent months indicates that the Rs 5,000-crore mark is likely to be crossed by the end of the current calendar year. At the end of the first week of the current month, the deposits of these banks had reached Rs 4,277 crores.

The increase in the value of deposits of scheduled commercial banks in 1968 at 11.7 per cent was a shade better than the corresponding percentage rise at 11.5 in 1967 (Table I). There were, however, a few of the leading banks whose rates of growth in deposits exceeded the combined experience of all scheduled commercial banks. To this category belonged the Bank

TABLE I
GROWTH IN DEPOSITS : 1967 AND 1968

	Deposits (Rs crores)		Annual increas per cent	
	1967	1968	1967	1968
State Bank of India	959	1061	9.47	10.64
Central Bank of India	395	435	9.7	10.1
Bank of India	338	395	10.1	16.9
Punjab National Bank	314	355	13.2	13.1
Bank of Baroda	275	313	10.0	13.8
United Commercial Bank	215	242	13.1	12.6
United Bank of India	130	144	14.0	10.8
Canara Bank	127	146	11.4	15.0
Dena Bank	102	121	7.4	18.6
Union Bank of India	100	108	7.5	8.0
Allahabad Bank	101	110	10.9	8.9
Syndicate Bank	80	112	8.1	41.2
Indian Overseas Bank	74	93	1.4	25.7
Indian Bank	73	85	2.5	11.6
All scheduled commercial banks	3763	4205	11.5	11.7

of India (16.9 per cent), the Punjab National Bank (13.1 per cent), the Bank of Baroda (13.8 per cent), the United Commercial Bank (12.6 per cent), the Canara Bank (15.0 per cent), the Dena Bank (18.6 per cent), the Syndicate Bank (41.2 per cent) and the Indian Overseas Bank (25.6 per cent).

A fact which needs to be stressed is that the 14 leading banks are by and large responsible for the buoyancy in bank deposits. The growth in deposits of these banks between 1955 and 1968 is set out in Table II. It sums up the history of the expansion of these banks and demonstrates how the dynamic ones, among them which were relatively less known 13 years ago, have now joined the front ranks of the banking institutions in this country.

In 1955, among the leading banks, there were only two which had deposits in excess of Rs 100 crores. The first rank belonged to the State Bank of India whose deposits at Rs 226 crores constituted almost one-third of the deposits of all scheduled commercial banks in the country. To the Central Bank went the second position with deposits at Rs 127.08 crores. In that year, there were only four banks which had deposits in excess of Rs 50 crores. The third rank with deposits of Rs 90.12 crores went to the Punjab National Bank; the Bank of India with deposits of Rs 64.74 crores held the fourth place. With the almost doubling of deposits of these banks by 1960, there were some shifts in the order of precedence except that the first six were able to retain their relative positions. A welcome development was the increase in the number of banks having deposits of more than Rs 50 crores; there were eight of them in 1960 as against only four in 1955.

By 1965, once again, the deposits of these banks had nearly doubled and this caused further changes in their ranking, although the first four still maintained their leads. By that time, moreover, each one of the 14 leading banks commanded deposits of more than Rs 50 crores. The progress of some of them was truly staggering; this was particularly the case with the Union Bank and the Syndicate Bank. In 10 years, the Union Bank had multiplied its deposits almost eight times (from Rs 9 crores in 1955 to Rs 69 crores in 1965). A similar rate of growth was demonstrated by the Syndicate Bank whose deposits rose from Rs 7 crores in 1955 to Rs 59 crores in 1965.

The working results of the last three years also throw some light on the dynamic manner in which

TABLE II
FOURTEEN LEADING BANKS: DEPOSITS AND OTHER ACCOUNTS

(Rs crores)

	1955	1960	1965	1966	1967	1968
Allahabad Bank	35 (7)	51 (8)	84 (9)	91 (11)	101 (10)	110 (11)
Bank of Baroda	41 (6)	85 (6)	186 (5)	250 (5)	275 (5)	313 (5)
Bank of India	65 (4)	106 (4)	240 (4)	307 (3)	338 (3)	395 (3)
Canara Bank	12 (12)	30 (11)	99 (8)	114 (8)	127 (8)	146 (7)
Central Bank	127 (2)	196 (2)	316 (2)	360 (2)	395 (2)	435 (2)
Dena Bank	16 (10)	35 (10)	82 (10)	95 (9)	102 (9)	121 (9)
Indian Bank	29 (9)	39 (9)	58 (13)	72 (14)	73 (14)	85 (14)
Indian Overseas Bank	14 (11)	28 (12)	54 (14)	73 (13)	74 (13)	93 (13)
Punjab National Bank	90 (3)	138 (3)	241 (3)	277 (4)	314 (4)	355 (4)
State Bank	226 (1)	571 (1)	735 (1)	876 (1)	959 (1)	1061 (1)
Syndicate Bank	7 (14)	19 (14)	59 (12)	74 (12)	80 (12)	112 (10)
Union Bank	9 (13)	28 (13)	69 (11)	93 (10)	100 (11)	108 (12)
United Bank	31 (8)	51 (7)	103 (7)	114 (7)	130 (7)	144 (8)
United Commercial Bank	48 (5)	86 (5)	146 (6)	190 (6)	215 (6)	242 (6)

Figures in brackets indicate the ranks of the banks in the particular years.

these banks have been forging ahead in their race for mobilising deposits from all over the country. At the end of 1968, only two out of these 14 banks had not attained the Rs 100-crore mark in deposits. They were the Indian Overseas Bank with deposits of Rs 93 crores and the Indian Bank with deposits of Rs 85 crores. The ranking of the top two banks—the State Bank of India and the Central Bank of India—has remained unaltered. As regards the third position, the Punjab National Bank yielded ground to the Bank of India in 1966 and the latter has maintained the lead so far. In 1968, the Bank of India was third with deposits of Rs 395 crores, while the Punjab National Bank occupied the fourth position with deposits of Rs 355 crores. The Bank of Baroda, which improved from the sixth to the fifth place in 1965 has maintained this position since.

The profits of these banks have shown a slow rate of rise, not in keeping with the steep increase in deposits. For this there have been a number of reasons, especially the continued increase in the bill for salaries and wages without the corresponding increase in the productivity of employees. The banks which recorded reduced profits in 1968 in relation to 1967, though in a nominal way, were the Central Bank, the Punjab National Bank, the United Commercial Bank, the United Bank of India, the Dena Bank, the Union Bank of India and the Allahabad Bank (Table III). Some of these results are provisional and are likely to change when the final balance-sheets are drawn up.

A natural consequence of the spurt in deposits of banks has been a sizable improvement in advances and bills, though the banks have found it difficult to absorb all their increases in deposits in remunerative advances to industry and trade.. There is also pressure on banks, after the initiation of social control, to assist small-scale industries, agriculture and export industries. The speeches of the chairmen of banks which have been released so far indicate that the Reserve Bank of India has been urging them to devote more attention to these strategic sectors of the economy. While there is ample justification for devoting increased attention to these vital areas in our economy, the needs of other sections should not be ignored. Also, undue pressure on banks to ignore commercial prudence in lending to the priority sectors is likely to jeopardise the security of bank funds, weaken the banking structure and the public's confidence in it, come in the way of deposit mobilisation, particularly in the countryside and thereby prove self-defeating.

TABLE III
PROFITS OF FOURTEEN LEADING BANKS

(Rs lakhs)

	1955	1960	1965	1966	1967*	1968*
Allahabad Bank	16	17	37	38	39	38
Bank of Baroda	30	16	90	90	92	92
Bank of India	85	103	150	150	150	150
Canara Bank	10	20	36	36	40	44
Central Bank	78	193	227	226	120**	119**
Dena Bank	11	24	31	31	33	31
Indian Bank	20	40	18	9	N.A.	N.A.
Indian Overseas Bank	17	45	17	18	N.A.	N.A.
Punjab National Bank	64	118	148	144	147	146
State Bank	136	218	330	379	443	506
Syndicate Bank	6	25	31	33	25	31
Union Bank	9	27	34	34	36	34
United Bank	15	15	26	26	26**	26**
United Commercial Bank	37	67	85	85	86	83

* Subject to audit.
** Profits for these banks are after providing for bonus to staff.

Retreat from World Focus

DR A. APPADORAI

I WISH Mr Dinesh Singh well. He has a hard task before him. India's foreign policy has remained the same in essentials since Jawaharlal Nehru formulated it on September 7, 1946. Mrs Gandhi, in her statement on Republic Day, 1966, said categorically: "The fundamental principles laid down by my father, to which he and Shastriji dedicated their lives, will continue to guide us."

But the world has not remained static. The liquidation of colonialism, the birth of several independent states in Asia and Africa, the rise of two super powers with nuclear strength, the birth and decline of the cold war, the growth of a militant communist power in the east, and Sino-Soviet rift have radically altered the setting in which international relations have to be conducted. Nor has India remained static. She has established new relations with one communist power, and has suffered military reverses at the hands of another, and has had troublous times with her neighbour, Pakistan. Above all, the diplomatic experience India has gained and the lessons of working non-alignment should enable her to be more mature in the conduct of her foreign policy. There is also a demand in several quarters for a new orientation in our foreign policy. For instance, the 'Assam Tribune' wrote on December 24, 1968, "That there is now a need for a reorientation of India's foreign policy can hardly be gainsaid. Not only has the existing policy been puerile but it has been hopelessly inflexible. It has chased shadows like peaceful co-existence and lofty ideals like global peace while neglecting the reality and substance of national interest." It is in this setting that Mr Dinesh Singh assumes charge of the responsible position of Foreign Minister.

Basis for Reorientation

The starting point in any such exercise of reorientation is, I suggest, to ponder over the oft-quoted remark of Jawaharlal Nehru, soon after the massive Chinese invasion in October 1962, that we have been living in an unreal world of our own creation. Towards the evening of his life, after innumerable exhortations to all and sundry, that we must be friends with all, that 'Panch sheel' is the bible of international relations, and that disputes must be settled by peaceful means, Nehru had realised that professions of friendship and promises of non-interference were not adequate to maintain national security. Politics was a more grim business: professions of friendship often concealed unsatisfied national interests and the watchful foreign minister must go behind words and assess their real meaning.

Indeed the concept of national interest is basic to an understanding of foreign policy. Nehru said in the Constituent Assembly (Legislative) in 1947 that whatever policy we may lay down, the art of conducting the foreign affairs of a country lies in finding out what is most advantageous to the country. "In the ultimate analysis", he said, "a government functions for the good of the country it governs and no government dare do anything which in the short or long run is manifestly to the disadvantage of the country."*

The principle is clear, it may be said, but what is its content? The content, I suggest, may be discussed under two heads: (i) general and (ii) particular. Every state aims at preserving its political independence and territorial integrity by safeguarding its international boundaries; the means may vary from balance of power and alliances to non-alignment and 'Panch sheel', but the national interest in the preservation of territorial integrity is clear. The particularist element in national interest—of different nations, and even of the same nations at different times—stems primarily from the stage of social and economic development which it has reached. The interest of an "affluent society" such as the US is, naturally, to preserve it and rid it of such influences found by the nation as are hampering its healthy and harmonious working; the interest of a socialist country like the Soviet Union—declared to be in the transition to communism—is obviously to conserve the gains of the Revolution, to increase the supply of consumer goods and to provide conditions in which it can effectively compete with capitalism. The interest of a developing country such as India, cannot, obviously, be either of the above. The most important national interest of India, outside of preserving her national integrity, is to see that her infant democracy is established on the firmest social and economic foundations. In the social structure, where caste is the key institution, the most important liberal development needed is mobility from group to group; in the economic field, the most important development needed is, indeed, development: improving living standards by increased production and equitable distribution. If we remember that those countries—such as Canada, Switzerland, Sweden, New Zealand, Britain and the USA—which by common consent have worked democracy reasonably well are also those which have had a good economic development, the national interest of India in promoting economic development will be clear. Such planned economic development, it is also clear, needs favourable internal and external conditions and it is the function of foreign policy to provide the latter.

Jawaharlal Nehru, in his many speeches on foreign policy, laid down two further dicta which he inadequately followed himself. First, he said, speaking in the Lok Sabha on September 2, 1957, any part we want to play in world affairs depends entirely on the internal strength, unity and conditions of our country. Therefore, he added that, both from the point of view of our primary needs and from the point of view of any

* Jawaharlal Nehru, 'India's Foreign Policy', p. 28.

"Plan's creation—rather."

desire we might have to play a part in world affairs, we have to pay the first attention to our own country's affairs. Second, speaking at the Indian Council of World Affairs on March 22, 1949 Nehru said, "I sometimes think that it would be a good thing for the world if all the foreign ministers remained silent for some time"; he added that more trouble was "being caused in foreign affairs by the speeches that the foreign ministers or their representatives delivered".* Nehru was probably exaggerating the harm caused by public speeches by foreign ministers; certainly in a democracy there is some room for such speeches. The important point that Nehru's suggestion throws up in the present context is, whether it is necessary that on every international issue our spokesman must say something on India's attitude. It is helpful if we sometimes remain silent.

Lost Initiative

It is a fact that India no longer plays the same active role that she played in the 1950s. The initiative which she took, for instance, in Korea, Vietnam, the Suez crisis etc., in the 'fifties is conspicuous by its absence in the several problems which have been facing Asia and the world in the 'sixties such as the Vietnam war and the Arab-Israeli tensions; on an issue like the invasion of Czechoslovakia by the Warsaw Pact countries, she appeared even afraid to speak out her mind.

It will be correct to say that the politically conscious elite in India welcomes this change. For they think that the prestige which India did have earlier was not in fact equivalent to a substantive influence; her influence in world affairs was but marginal. What India needs is to promote her own national interest, careful planning and administration at home so as to make the country united and economically strong. The retreat from a world focus is all to the good, for a sound domestic policy is the best foundation for sound foreign policy.

The same pragmatism also demands, I suggest, that the content of non-alignment be examined thoroughly in the context of the loosening of the bounds among the members of the blocs themselves as may be witnessed from France's unwillingness to follow the leadership of the USA and the growing liberal trends in several of the Warsaw Pact countries. A pointer to a rethinking on the subject is contained in the Declaration of the Neutrality of Laos 1962, to which India is a party: "The Royal Government of Laos......declares that it will not enter into any military alliance or into any agreement, whether military or otherwise, which is inconsistent with the neutrality of the Kingdom of Laos." The question to be examined is whether a military alliance per se is inconsistent with non-alignment, or only such alliances as commit the country to follow one bloc or the other.

And one final point. The Pillai Committee on the Indian Foreign Service makes the sensible observation: "The strands of foreign relations are manifold and are fashioned by many hands, but it is for the Foreign Service to weave them into a coherent whole". If, however, the Foreign Office is to establish its leadership, and to earn the respect of other departments operating on the technical side in the same region, "it must develop sufficient competence to deal successfully with the basic problems". I have no doubt that Mr Dinesh Singh, with his experience in the Ministry of Commerce, will be able to develop that competence in the Ministry of External Affairs without which, as the Pillai Committee thought, it cannot establish the necessary leadership in the field of foreign relations.

* 'Jawaharlal Nehru's Speeches', Vol. I, Pp. 251-52.

Canalising Imports Through STC

A Special Correspondent

EVER SINCE the former Commerce Minister, Mr Dinesh Singh, announced at the meeting of the Board of Trade that the government was exploring the possibility of the State Trading Corporation (STC) taking over the entire imports of raw materials, trade and industry associations have voiced much concern on the proposal. The announcement was soon followed by a statement by the Chairman of the Minerals and Metals Trading Corporation (MMTC) stressing the competence of that public sector corporation in handling the task in regard to import of non-ferrous metals, while the chairman of the National Mineral Development Corporation (NMDC) is reported to have expressed the desirability of that corporation being given the sole responsibility from the stage of mining to marketing in respect of iron ore. When the idea was first mooted by the former Commerce Minister at the meeting of the Board of Trade, he gave the impression that the objective was to secure a "consortium approach" to buying and selling in the world markets. On the other hand, the Deputy Prime Minister stressed a different aim when he told the Hindustan Chamber of Commerce at Madras recently that the canalising of imports through the state agency might help in solving the problem of "under-invoicing" and "over-invoicing".

So far as "under-invoicing" and "over-invoicing" are concerned, the present foreign exchange and import-export regulations in India and other countries make this difficult, and it is not that these evils are so rampant or that the government and the Reserve Bank of India lack adequate means of dealing with them. Nor would it be justifiable to bring in state monopoly trading on this ground which would mean penalising trade and industry for the misdeeds of a few. Industry and trade know their own interests and would not object to the scheme if it was advantageous.

Advantageous in Theory

In theory bulk purchases by the STC or any other state agency would appear advantageous. In this context the Chairman of the MMTC recently stated that the corporation was able to secure a reduction of $22 per tonne of drum sheets required by an oil company. A solitary instance such as this does not prove that bulk buying is always profitable. On the other hand, it should not be forgotten that when a bulk buyer enters the market for purchase of a material, the sellers also are able to get together and the bargaining position of the buyer is counter-balanced. Canalisation may therefore push up prices in the country of origin. In actual practice trade and industry have not found canalisation of imports of raw materials convenient or economical. The objective of giving to the STC and the MMTC the monopoly of importing certain raw materials, viz., to ensure steady supplies to indigenous industries at economic or reduced price has, in the view of the interests concerned, not been achieved. On the other hand, several industries have experienced hardships in regard to securing their raw material supplies because of the inability of these state undertakings to arrange timely supply of raw materials of the right type, at the appropriate time and at reasonable prices. For example, in respect of the import of rock phosphate, sulphur, wool, non-ferrous metals, copra, soyabean oil and some other commodities, industries have in the past made serious complaints of the inordinate delays in securing these materials through the STC and the MMTC. The sulphur deal came in for severe criticism in Parliament. The Committee on Public Undertakings (CPU) in its report criticised the STC for having entered into a contract with a foreign supplier "without going into the credentials of the firm and not getting the source of the supply verified." The CPU further pointed out that the firm had not been dealing in sulphur. It also became known later that the mines from which the sulphur was to have come had not worked from 1963 to 1965. In regard to rock phosphate the fertiliser industry was seriously handicapped in 1965 on account of the breakdown in the STC's procurement programme. While the actual requirement of rock phosphate was 870,000 tonnes, supplies amounted to only 444,000 tonnes. Industrial units were, therefore, given supplementary import licences for rock phosphate. Arrangements were made by the STC late in 1965 for procurement of rock phosphate requirements for 1966 but no corresponding requirements of sulphur could be imported as there was a world shortage of sulphur. The balance between these essential raw materials was upset, the accumulated stocks of rock phosphate not being matched by sulphur in required quantities. Instead of slowing down import of rock phosphate, during May-July 1966, the STC imported 40 per cent of the year's requirements, thus causing a serious imbalance between the supplies of rock phosphate and sulphur. The industry had, therefore, to work at low capacity though it had large stocks of rock phosphate. Further, rock phosphate was imported during the rainy season, resulting in considerable increase in moisture content, adding to the shipping and handling charges. When the government was convinced of the difficulty of fertiliser manufacturers, actual users and well established importers were given licences for sulphur imports. Also for the year 1967-68, as against the total requirements of rock phosphate, there was a big shortage on account of the inability of the STC to finalise imports in time so as to keep the fertiliser factories working to their full capacity.

Serious Complaints

There have been serious complaints in the past that the STC made purchases at higher than international prices by not making purchases at the right time. This has happened, for example, in the case of imports of mercury. The year before last the STC paid a high price for soyabeans bought in the USA. The purchases were made as late as the month of August when the prices were at their peak. There have also been complaints that the STC has, on occasions, bought the wrong types of goods e.g., wool from Australia. In the case of purchase of wool, special knowledge of its type, yield tare, etc., is required. The STC did not consult the industry while making purchases of wool with the result that it had to hold stocks of wool which the manufacturing units did not require. There were also complaints in respect of copra purchased from Singapore which, being of poor quality, the regular crushers did not buy from the STC. There have also been complaints in the past of the STC being unable to secure adequate quantities at reasonable prices of dyes, intermediates and other canalised products, and similar complaints against the MMTC in regard to zinc and some other metals. Yet another effect of canalisation would be that it would lead to disruption of existing producer-consumer relationships which have been built up by various industries through long-standing connections and experience. If the industries concerned are allowed to import their requirements of industrial raw materials direct, they would be better able to import a large percentage of their requirements at producers' prices than through the monolithic state organisations.

In regard to the non-ferrous metals industry, it may be mentioned that indigenous production of copper, zinc and lead has not been appreciable and the country will have to depend on their imports for much of its requirements. Copper, zinc and lead are subject to wide price fluctuations in the international markets. The non-ferrous industry at present finds it difficult to operate on a profitable basis in regard to the sales of its products. The raw material cost represents 80 to 90 per cent of the cost of the end-product. It is, therefore, essential that the industry should be able to secure its raw materials at economic prices. To achieve this the industry has to be vigilant about purchases on time

and at reasonable prices, as these purchases have to be matched with the sales of the end-products. This is difficult under the canalisation system. Increases in the prices of end-products affect the cost structure of the consumer industries. It is, therefore, necessary that the non-ferrous metal manufacturers should be given freedom to make judicious purchases in international markets and space their deliveries. That would help in removing the uncertainty regarding the supplies and enable the units to plan their production in advance. At a meeting of the former development council for non-ferrous metals a resolution was passed recommending that "imports of virgin metals should be allowed through normal trade channels and licences should be issued to importers and actual users based upon their previous consumption." The non-ferrous metals industry feels that canalisation will not be of any assistance to the industry or the economy and that on the contrary decanalisation of imports now required to be made through the MMTC for the non-priority industries would help not only in increased utilisation of capacity but would also enable maintenance of the price level of its products as well as of the products of the consuming industries. A special feature of the industry is that supplies by the non-ferrous industries to the orders placed upon them would depend not only on the availability of one metal but the matching metals as well. For example, zinc without copper would not do. If there is a regular supply of the matching metals, production planning could be properly achieved. There may be variations in requirements depending on the flow of orders. A central state purchasing agency, it has been found from experience, would not be able to make needed adjustments and the industry would have to build up high inventories, which would be uneconomical.

Industry and trade are sceptical of the ability of the state trading organisations to deliver the goods. The scepticism and fears are based on past experience. Further, the task that the state agencies would be called upon to do would be huge. Imports of industrial raw materials come to about Rs 500 crores per annum. An error of judgment in bulk purchases may cost the country dearly in foreign exchange. Further, the industrialists know what is good for them and would not oppose the scheme if it was really expected to benefit them. But it is feared that the canalising arrangements would not either be economical or convenient to them. In this connection it may be pointed out that the MMTC charges 3½ per cent service charge over the landed cost. Besides there are the sales tax at three per cent and handling charges. This has the effect of increasing the overall cost by as much as nine per cent. Under direct imports the industry has not to bear this burden. It has also to be borne in mind that a state agency would not be able to do better than the importers in competitive buying as the latter can spread their purchases over a period according to their needs, which might differ from unit to unit, according to the end-uses to which the raw materials are to be put, and the prices at which the raw materials are available at particular times.

It is hoped that the various considerations referred to in the foregoing paragraphs and the viewpoints of the interests concerned would be carefully considered by the government before the scheme is rushed through.

Finance for Small Industries

RAM K. VEPA

A RECENT survey conducted by the Reserve Bank of India revealed that in 1966-67, the total credit made available to the small industry sector in the country was Rs 178.55 crores; although this was almost twice as much as in the previous year (Rs 90.76 crores), it still formed only 6.6 per cent of the total credit made available by all the banks—which is indeed much less than the figure of 31 per cent which was agreed to be allotted to this sector by the commercial banks from out of their fresh deposits.

The reasons for this large gap between target and performance are many: the small industrialists argue that while there has been some improvement, many banks are still far too "security" conscious and tend to regard the small industry sector as poor risk. The banks, on the other hand, contend that they are ready and willing to extend assistance to all credit-worthy schemes and that, in actual practice, there are not enough number of such schemes presented to them. The industrialists say that screening procedures at the banks are time-consuming and costly due to inadequate delegations to local managers, the banks contend that many small industrialists are unable to provide the necessary information about their enterprises to enable decisions to be taken speedily...... and so the argument goes on, with much that can be said on both sides

Apparent Dichotomy

It was to resolve this apparent dichotomy that a seminar was organised by the Development Commissioner, Small Industries, at New Delhi, recently (February 21-22) and was attended by a representative cross section of small industry, commercial banks, financial institutions and government departments. The fact that it was inaugurated by Mr Morarji Desai, the Deputy Prime Minister, lent weight to the deliberations; his advice to the banks to provide more assistance to the small industry and to the latter to "earn it" was significant and timely: as Mr Nanjappa, the Development Commissioner (SSI), remarked, it certainly enhanced the "credit-worthiness" of the small-scale industrialist.

The importance of the small industry to the national economy was recognised on all hands; as the Deputy Prime Minister said, neither sector of industry could live or prosper without the other. The small-scale sector contributed as much as 52 per cent of the total industrial output in the country (Rs 6042 crores in 1965-66) and provided employment to nearly 3.0 million persons representing more than a third of the total factory employment. There were as many as 140,000 units registered with the state Directors of Industries and, in addition, an equal number of unregistered units dispersed all over the country but, of these, hardly 30,000 are within the fold of banking.

In terms of financial credit, a wide variety of institutional arrangements have been made in the last 15 years to provide assistance to this sector. The bulk of the credit is in the shape of working capital and term loans extended by the State Bank and the commercial banks. The National Small Industries Corporation provides hire-purchase facility for imported machinery while the state financial corporations extend term loans to small and medium enterprises. In addition, help is provided under the state aid to industries acts operating in all the states. It was estimated that the total assistance rendered to the small industry since 1956 has been roughly of the order of Rs 400 crores while in the fourth Plan alone, a sum of Rs 390 crores is said to be required, of which only Rs 120 crores can be met by existing institutional arrangement, leaving a large gap of Rs 270 crores.

One solution suggested was increased allocations to the financial institutions while another mentioned by the Minister of Industry was the establishment of a separate agency on the lines of the Small Business Finance Corporation of Japan—operating either directly or through existing agencies. But it was recognised that the bulk of the additional credit has

to come from the State Bank and the commercial banks whose policies and procedures are therefore of significance in ensuring a greater flow of credit. On policy, there was no difference of opinion: all were agreed that a much larger volume of credit should flow into the small-scale sector and that the criteria should not be security alone, but other factors such as growth potential, profitability and management. As Mr Newalkar (Chairman of the Maharashtra Small-Scale Industrial Development Corporation), reminded the bankers of the advice of a former Governor of the Reserve Bank of India banking in India should be "not merely sound but wise". In regard to procedures, however, the small industrialists felt that the forms prescribed by the banks were often cumbersome, elaborate and overlapping, contrasting unfavourably with the traditional money-lender's quick and timely (even if expensive) assistance. It was therefore suggested that the Reserve Bank should be requested to take the lead in evolving a simple application form that could be adopted uniformly.

There was also a suggestion that inadequate delegation to local bank managers made it difficult for them to take quick decisions; further, bank officials operating in semi-urban locations where many small industries are situated, are not always aware of the latest policies and are not able to help the applicant even to fill up the forms. It was therefore suggested that along with greater delegation, the bank staff working in rural areas be reoriented so as to be of greater assistance to the small-scale industrialist. The bank must also perform post-credit follow-up services to help small industry managers make a success of their enterprise.

Modernisation of Equipment

Some of the specific financial requirements of the small-scale industry were discussed and, in a sense, the most important was modernisation of equipment. It was estimated that about Rs 450 crores were required for this purpose out of which the existing financial institutions such as the State Bank of India, the SSIDC, the SFC, and others can provide Rs 200 crores and the commercial banks another Rs 100 crores. There was therefore a gap of Rs 150 crores which has to be found by increased allocations to institutions. Modernisation, however, implies more than mere replacement of machinery; in fact to be effective, there should be a corresponding improvement both in technology and personnel.

The scheme of the State Bank of India to provide full assistance to the technically-trained entrepreneurs is a pioneering attempt to draw the right type of personnel to the small industry sector. It was felt however that the response to the scheme had not been as good as was expected, particularly in backward areas, and that greater effort was needed by the state Directors of Industry and government agencies to help qualified people take advantage of this scheme. There should also be a greater publicity for the scheme amongst engineering colleges and polytechnics so that students are made aware of the assistance schemes open to them.

Most of the existing institutional arrangements provide short-term and medium-term loans to small-scale industrialists. In respect of equity capital, there was a scheme of the Government of Orissa some years back but this has not proved to be successful. Some industrial development corporations have been undertaking joint ventures in which they provide 50 per cent of the equity capital while the rest is provided by the entrepreneur who is also made responsible for the day-to-day management of the enterprises. It would seem that greater attention must be paid for making available equity capital to the small-scale industrialist on a liberal basis.

The Credit Guarantee Scheme is operated by the Reserve Bank of India by which advances made to the small-scale industry by designated agencies are automatically covered by the Reserve Bank. There has been a rapid rise both in the number of guarantees issued and the amount covered by them; from 900 guarantees in 1960-61 representing Rs 2.81 crores, they have risen to 22,000 in 1967-68 amounting to Rs 109.77 crores. So far only State Bank of India and its subsidiaries have availed themselves of the guarantee scheme but others are expected to do so increasingly in the future. The percentage of defaults is between 0.2 and 0.6 per cent involving about Rs 55 lakhs and the net claims paid under the scheme since its inception up to the end of June 1968 were about Rs 6.37 lakhs--0.02 per cent of the amount guaranteed. This is indeed a creditable record indicating that the small industry was a much better "credit risk" than was generally supposed.

In fact, the problem of equitable coverage within the small-scale sector itself was touched upon at the seminar a number of times. Mr Venkataraman, Member, Planning Commission, wanted that there should be more data on the type of units assisted so far, since it was felt that those located in the metropolitan areas obtained most of it as against those in semi-urban and rural locations which, in fact, deserved more if the full benefits of decentralisation and dispersal were to be realised. For the same reason, it was suggested that a distinction must be made between the small industries using scarce raw materials in urban areas and those in rural areas utilising agricultural raw materials and which are generally the "smaller" ones in the small-scale sector. A priority list of 66 industries based on export possibility, employment generated, agricultural needs and availability of indigenous machinery was drawn up and it was suggested that full assistance might be made available to them.

Finally, with the larger number of agencies involved in extending credit, there is need for more effective co-ordination at the national, state and district levels so that periodic reviews could be made whether adequate assistance was being made available to the sector. The committee at the national level should have the Governor, Reserve Bank, as president while the Director of Industries and District Collector can perform a similar role at state and district levels respectively. It is only by such co-ordinated effort on the part of all concerned that adequate credit can be made available to the small-scale sector to enable it to discharge its important role in the fourth Plan.

FROM THE PRESS GALLERY

The Battle for Funds

Our Parliamentary Correspondent

NEW DELHI, Tuesday.

BOTH THE Houses of Parliament completed this week their deliberations on the Railway budget. The Rajya Sabha also completed its discussion on the central budget. A good deal of legislative business was transacted by the Lok Sabha.

It was indeed a Morarji Desai in his element who replied to the Rajya Sabha debate on the central budget. The Deputy Prime Minister and Minister for Finance flatly rejected the demand of the opposition that the centre should transfer more resources to states in the interest of the development of the latter. "I do not have more funds with me to share; I cannot satisfy everybody", he declared. In defence of this stand, Mr Desai put forth quite sound arguments. The centre, he pointed out, had to discharge the responsibility of defending the country. If the Constitution was amended to change the very basis of allocation of resources between the centre and the states, it would weaken the centre and endanger the country's security. He further asserted that if the states' sphere of taxation was widened at the cost of the centre, regional imbalances would crop up. The centre needed funds for correcting regional imbalances.

The Deputy Prime Minister stoutly refuted the charges that the centre's method of distribution of funds to states was arbitrary and that the non-Congress governments were not being given a fair deal. He reminded the critics that the criteria for the distribution of central grants to states had been laid down by the chief ministers themselves. The Planning Commission was strictly adhering to these criteria. Moreover, there was the Finance Commission which met every five years to help in the matter.

Finanee Minister's Defence

Most of what else Mr Desai said while winding up the Rajya Sabha debate on the central budget, however, was a repetition of what he had already stated in the Lower House. Defending the proposed levies on agricultural wealth and fertilizers, he emphasised that the primary objective of these taxes was that those people who had specially benefited from the government policy and who were now earning sizable profits should contribute a part of their increased incomes to the government revenues. If the union cabinet, therefore, was to review these levies, it was only in deference to the critics. Otherwise there was enough justification for the two proposals. Mr Desai, however, rejected the contention that by taxing agricultural wealth he was encroaching upon the states' sphere.

The Deputy Prime Minister was particularly harsh on those who had demanded a cut in defence expenditure. He asserted that the government could not take any risk with the nation's security; the country was in no less danger today than it was in 1962 and 1965. Whatever the compulsion, the defence expenditure, Mr Desai asserted, would have to be maintained. To those who had pleaded for drastic cuts in non-developmental expenses, the Deputy Prime Minister's answer was that there was very limited scope for this. Some part of the non-developmental expenditure, he clarified, was on account of debt servicing. This obviously could not be reduced. Talking of administrative expenditure, Mr Desai pointed out that the scope for curtailing it also was limited. Any large-scale cut in this expenditure would throw people out of jobs. He, of course, assured the House that all efforts at economy in administrative expenditure were being made to the extent possible. Replying to the critics who had reminded him of his promises of not resorting to deficit financing, Mr Desai observed that the proposed deficit financing of Rs 250 crores next year was justified under the present-day circumstances. He would like to end deficit financing whenever it was possible consistent with the need of our developing economy.

During the debate in the Rajya Sabha on the Appropriation Bill, which sought to authorise the government to draw upon the Consolidated Fund for meeting the expenditure till the budget was finally passed by Parliament, the Jana Sangh group pleaded that our country should go in for atomic weapons in the interest of safeguarding our independence. The CPI spokesman, Mr Bhupesh Gupta, expressed concern over the use of PL 480 funds which were in the hands of the United States embassy. Rejecting the demand for the manufacture of nuclear weapons, the Minister of State for Finance, Mr P. C. Sethi, asserted that the government was not neglecting the country's defences. In regard to PL 480 funds, he pointed out that most of these accumulations were routed through the Reserve Bank of India. The US embassy had very small amounts at its disposal for meeting its expenses. There was, therefore, no misuse of these funds.

Noteworthy Suggestion

The debates in the two Houses on the Railway Appropriation Bill did not contain much new information. The need for strengthening the railway finances through effecting economies, checking of ticketless travel and pilferage of railway property was stressed by many members. A noteworthy suggestion made in this regard was that a high-powered commission should be appointed to go into the affairs of the Railways. One member questioned the advisability of having a separate railway budget when the Railways were no longer run on a commercial basis as was the case during the British days. The demand for the scrapping of the Railway Board was again made. The need for extension of the railway network in the strategic and economically backward areas was also stressed. The proposal to scrap some of the uneconomic railway lines was opposed by some members. The railway employees found many members championing their cause.

Replying to the debate in the Lok Sabha, the Railway Minister, Dr Ram Subhag Singh, accepted the suggestion for the setting up of a committee to find out ways and means of improving the income and traffic of Railways. The committee, he added, would be headed by Mr R. L. Chaturvedi, Deputy Minister for Railways, and would include some members of Parliament in addition to railway experts. Dr Singh also announced that in deference to the wishes expressed by members, it had been decided that no uneconomic railway line should be dismantled. On the other hand, every effort would be made to strengthen these sections by converting them into either metre or broad gauge. Dr Singh again rejected the demand for the scrapping of the Railway Board. Referring to the over-staffing of the Railways, Dr Singh reiterated that no retrenchment was to be done and any modern device which might be introduced would not result in any retrenchment of employees. On the need for setting up a tribunal to determine the need-based minimum wage for railway workers, stressed by some members, the Railway Minister observed that the railway workers could not be isolated from other central government employees in this matter. The setting up of a separate tribunal for them only, therefore, was not proper. The National Commission on Labour, he added, was already examining the

question of evolving minimum wages, including the national minimum wage. Its report must be awaited before any definite norm about need-based minimum wage could be evolved. The question of grant of relief to the non-gazetted staff who had already reached the maximum in their scale, Dr Singh, said, was under consideration. To enable farmers to visit central agricultural research institutes in various parts of the country, the minister announced, the Railways would offer 50 per cent concession on fares. No significant new point was made by the minister in reply to the debate in the Upper House.

Two important economic bills were adopted by the Lok Sabha this week. These were: (i) the Payment of Bonus (Amendment) Bill which sought to make the employees beneficiaries of the income-tax rebate accruing to companies; and (ii) the Customs (Amendment) Bill which aimed at prevention of illegal export of silver and raising of the limit from 50 to 100 kilometres of "specified areas" on the western and Tamil Nadu coasts for the purposes of checking smuggling.

In an acrimonious debate, further modifications of the statutory scheme for the payment of bonus to workers was demanded by the spokesmen of both the employers and the employees, each side asking for modification in its own favour. Mr S. C. Goel (JS) wanted a comprehensive bill to be brought forward to remove several lacunae in the Payment of Bonus Act. The ceiling on bonus, he said, should be removed and workers should be enabled to challenge balance-sheets and to examine account books of companies. Mr V. C. Mahajan (Cong.) also expressed himself in favour of the removal of the ceiling on bonus. Ceiling on bonus, he pointed out, was not justified when there was no ceiling on profits a company could make. Mr S. M. Banerjee (Ind.) stressed that the government should have included in the bill a provision that would guarantee higher bonus to workers under the present bonus agreements. Mr George Fernandez (SSP) wanted a study to be made of how the Payment of Bonus Act had worked. Some members wanted this act to be made applicable to public sector undertakings also. Mr D. N. Patodia (Swt.) argued that the bonus formula should be amended so that higher amounts were retained by companies as depreciation for modernising plants.

Minister's Reply

Replying to the debate, the Minister for Labour, Mr Jaisukh Lal Hathi, agreed with the suggestion of Mr Fernandez, but pointed out that the proposed study could not be entrusted to a special commission as the National Commission on Labour was considering the issue. Explaining the reason for bringing the amending bill before the House, Mr Hathi observed that from the proceedings of the House when the parent act was legislated upon it was quite clear that the actual income-tax paid and not the tax notionally payable was the amount that was to be deducted from gross profits of a company to determine the surplus available for paying bonus. The Supreme Court had held that the act as worded would make employers the beneficiaries of any income-tax rebate they secure. The amendment of the act, therefore, had become necessary to carry out the original intention.

During the debate on Customs (Amendment) Bill, the Minister of State for Finance, Mr P. C. Sethi, pointed out that at present smuggling of silver was carried on from the western and the Tamil Nadu coasts, but if the government thought it necessary areas on the other borders could be declared "specified areas" in order to check smuggling of all types of goods.

In its 54th report presented the Lok Sabha this week, the Public Accounts Committee (PAC) has felt that to embark on a new zinc smelter at Visakhapatnam before carefully assessing the country's ore potential and considering the possibility of expanding the two existing smelters at Zawar (Rajasthan) and Alwaye (Kerala) was premature. The whole scheme, the PAC opines, was planned in a haphazard manner. In its report on Hindustan Cables, the Committee on Public Undertakings (CPU) has noted with concern that a wide difference between the original and revised estimates of public enterprises had become a common occurrence. This, the CPU feels, was found to create the impression that the original estimates were kept deliberately low so as to obtain the approval of the government for a particular scheme in the hope that once the approval was received, the government would have no alternative but to increase the cost.

Question Hour

Credit for Farmers: The Minister for Food and Agriculture, Mr Jagjivan Ram, told the Lok Sabha on March 20 that the government and the Planning Commission were considering a scheme for inclusion in the fourth Plan to enlarge credit facilities for small farmers. Special arrangements would be made for providing credit and fertilizers to small farmers through co-operative societies. The Minister of State for Co-operation and Community Development, Mr M. S. Gurupadaswamy, told the House that the government's effort was to have co-operative societies in every village. The Minister of State for Food, Mr A. P. Shinde, told the House that the short-term credit requirements for agricultural purposes in 1973-74 were estimated around Rs 1,550 crores. The long-term and medium credit requirements for the five years to 1973-74 were estimated at Rs 1,650 crores.

Food Imports: Mr Jagjivan Ram revealed in the Lok Sabha on March 20 that the requirements of imported foodgrains during 1969-70 were estimated at about 5.2 million tonnes.

Jute Exports: The Minister for Foreign Trade and Supply, Mr B. R. Bhagat, rejected in the Rajya Sabha on March 20 the demand for a 30 per cent bonus voucher benefit to Indian jute exporters as was given in Pakistan. The minister admitted that competition from Pakistan in the export of jute goods was becoming stiffer. "We are trying to overcome it by new production techniques and also by giving some relief to exporters", Mr Bhagat added.

Loss to Tourism: The Minister for Tourism and Civil Aviation, Dr Karan Singh, told the Rajya Sabha on March 18 that the tendency among foreign tourists to visit Calcutta less now than they did before was disturbing the government a good deal. One of the reasons for this was that with new hotels coming up at Kathmandu and Dacca, tourists came straight to Delhi after visiting these places.

Eastern Economist 25 Years Ago

MARCH 31, 1944

The development of communications, and in particular of road transport, will, it is obvious, receive a high degree of priority in any scheme of post-war reconstruction. Whether the target is a total of 400,000 miles as under the government plan or 600,000 miles as under the Bombay Plan, a wide extension of roads is inevitable. On the road the motor vehicle will be undoubtedly the most predominant agency of transport. The bullock-cart in the rural areas may not, however, be easily displaced. So long as agriculture remains fragmented, mechanical tillage and harvesting will make only slow headway; and so long as the prime mover of agriculture is the bullock, its use in the off-season for the marketing of the main staples is desirable, as it will give the agriculturist an additional income. But with the growing importance of special crops, of market gardening, fruit growing, etc., the scope for the use of motor transport will be ever widening. In other ways too, motor transport is bound to relegate to a continuously declining place the bullock-cart.

WINDOW ON THE WORLD

Towards the "Post-Industrial" Society

JOSSLEYN HENNESSY

I
THE WORLD STUDENT REVOLT

LONDON:

"WE LIVE in an age of transition" is the groan that resounds down the centuries from the older to the younger generation, because the older you are the more difficult it is to adjust to change and the less you feel you can do about it, except to leave a baffled sigh. I can imagine the elderly Bairam Khan muttering about "this age of transition" when the young Akbar sacked him in 1560; and the veteran Moderates Tej Bahadur Sapru and C. Y. Chintamini deploring it when the young Jawaharlal Nehru and others displaced them from control of the Congress party in 1920; and the aging Jawaharlal sighing about it to Indira, when years later China by invading India put his non-alignment policy on the shelf.

Every passing decade is an age of transition -as new inventions and methods first modify, and then overturn, the ideas and customs with which we were indoctrinated at school and college. He who does not want to get left behind must have the intellectual humility to realise that he can never know all the answers, but must ever be ready and anxious to acquire new knowledge and digest new experience.

I am moved to these platitudes by the bewilderment of so many of those in authority faced with the student revolt that is sweeping Europe and North America. From universities everywhere come reports of "sit-ins," and defiance, often violent, of authority. That President de Gaulle no longer bestrides Europe like an omniscient colossus is basically due to the students of France who showed that, in the ultimate analysis, not even massed police, armed with tear gas, riot shields, and batons, could hold them down. The workers of France followed suit and occupied their factories, to the vocal annoyance of their own middle aged leaders (including the communists), who saw their authority being undermined in this "age of transition."

That President Johnson decided that it was useless to attempt to stand for a second term of office was also basically due to the revolt of American students against the war in Vietnam, which spread from the campuses in tumultuous, ever widening, waves.

As long as the national leaders in all countries think merely in terms of repression, the movement of revolt and alienation from the established order will gather force. The question is: What has come over the young? Against what are they protesting?

The answer differs from country to country, but one clue seems to be that alienation flourishes more particularly in the more advanced industrialised democracies and seems less evident in the developing countries. What have the industrialised countries in common? Steadily rising mass affluence and intensifying pace of technological change.

The industrialised west is fast advancing towards a "post industrial society". The concept of such a society was first published in 1962 by an American, Daniel Bell, who, although now Professor of Sociology at Columbia University, New York, was significantly enough, once a staff writer on 'Fortune', the USA's leading magazine of business and industry.

Bell believes that the post-industrial society will resemble the present in continuing to be politically democratic and in having a mixed economy, but that services will replace industry as the mainstay of the economy and the major source of employment, just as industry replaced agriculture in the west in the course of the 19th century. Professional and technical work will predominate, says Bell, and social status will depend mainly on intellectual achievement. Innovation, gathering pace, will increasingly depend on the ability of men (and women) to understand scientific theory and codification by means of computers (and doubtless other instruments as yet uninvented) of an endlessly evolving body of theoretical knowledge.

This idea is perhaps the more easily grasped if we look back. The body of knowledge in the time of the Greek philosopher Aristotle (384-322 B.C.) was such that (a) he could master all branches of it himself, ranging all the way from philosophy to psychology, biology, logic, politics, medicine, astronomy, poetry, literary criticism etc., and (b) he could communicate the whole of it to any reasonably intelligent group of pupils. Broadly speaking, this remained true until the end of the 18th century. Most people today regard Adam Smith (1723-1790) as an economist, but it was as a philosopher that he took all his data from all branches of then existing knowledge.

But every succeeding year of the industrial revolution widened the frontiers of knowledge in all directions, until today the universal philosopher is often dismissed as a man who knows more and more about less and less.

The contemporary mill-race of innovation means, in Daniel Bell's view, that the universities, as the main repositories of computerised, codified knowledge, will gradually displace industrial enterprises as the main source of innovation. Decision-making in large organisations, including the universities, will become more formalised. The "system" method of feeding all the data from different disciplines and skills into computers to obtain integrated decisions affecting all aspects of a project —whether manufacturing and selling motor cars, or fighting a war--hitherto carried out by committees of specialists, often jealous of each other and engaged in rival empire-building, will become universal, and will require that educated people (even those in the Arts and Humanities) will have to be capable of dealing with quantitative methods.

II
THE AGE OF THE "MERITOCRATS"

These prospects may exhilarate those with high intelligence quotas, but they alarm average men of the younger generation who see their fields of activity contracting. Most average men have status of one sort or another today, but what will happen to them in a new society in which status and power will derive from intellectual attainment depending on the comprehension of a theory that is always in flux?

Already even with automation still in its earliest stages, innumerable craftsmen and specialists see their skills rendered obsolete. To take one example: printers and compositors are among the most highly paid craftsmen in the west, but they are fighting a losing rearguard action against automated composing, printing, folding, packing, and despatching of newspapers, in one integrated flow system, from the receipt of "copy" to the breakfast table.

This does not mean that the total of jobs will be less but that the composition of employment, and the skills required, are changing. While the need for blue collar, factory-floor craftsmen is falling, the demand for blue collar workers for maintenance and for white collar workers for monitoring and for administrative services is multiplying, but the skills required are different and usually more demanding than those displaced.

Hitherto, workers in the west have learned specialist

trades, such as those of electricians, plumbers, carpenters, and have expected to continue in these trades all their working lives. Today, however, one of the most daunting experiences for the contemporary worker, proud of his skill, is to find it no longer wanted. He is suspicious of redundancy retraining schemes, because they are a blow to his pride and, not least, because he fears that, at his age, he may no longer be capable of learning new skills. But educational authorities in all western countries now agree, and are planning accordingly, that workers must henceforth be taught certain basic mechanical skills applicable to most technologies, and that they must from the beginning of their apprenticeship be accustomed to the idea that they will be returning to technical school, without loss of status, at intervals of, say, five years throughout their lives, to acquire the latest modifications and innovations.

At all levels of work—from shop floor to senior executive the very idea of a single career, of a one-track occupation into which one settles down permanently at some point before one is thirty, may come to seem unrealistic. The present familiar presumption of steady advancement up the same ladder as one gains more experience may look archaic in a world in which the grounds of science continue to shake under one's feet.

Here is a further clue to student unrest. The faint hearted and those of average I.Q., and indeed many with high potentialities, assume that the post-industrial society will be boundlessly affluent and that anyone who wants to contract out of the "rat race" will be able to relax and to enjoy life.

The first catch in this is that the overwhelming majority of students in all western countries today are being educated free, and on leaving the university most can enjoy unemployment pay, national health, and other social services—giving them enough to get by at the modest level, with which they (at present) profess to be satisfied, right up to the age of old-age pension. What they overlook is that all this is at the expense of the taxpayers, and that the only way in which the taxpayer can earn enough to pay these taxes is by sticking to the "rat race" and observing the traditional values of hard work and slowly rising rewards.

Inadequate Benefits

Meanwhile the students complain that their stipends, their class rooms, equipment, their hospitals, medical attention, and social security benefits are inadequate. All western countries are increasing their intake of students, and if thus, year by year, a greater proportion of the potential labour force gives up the "rat race", one can envisage a fairly near future in which a diminishing percentage of traditionally minded on-the-job workers will be supporting an increasing percentage of happy-go-lucky drones living off the welfare state. The life-long students could then be hoist with their own petard and find themselves up against a revolt of the taxpaying workers!

A further illustration of this point is that whereas a middle aged American liberal is proud of the appreciable reduction in US poverty in the past decade, his son is not impressed because, having lived all his life hearing about one fantastic achievement after another, he assumes that the problems of poverty ought to be more rapidly solvable if those in authority really want to solve them. True, but this, again, overlooks that even if the solutions are slow, progress is being made—and the wealth needed to support it is being created by those still in the "rat race", not by the protesting minority smoking cannabis on the side-lines.

The outstanding problem facing the quitters is that the mass of the workers on the factory floors and elsewhere have the vote, and they use it to enforce annual across-the-board pay rises, but unless productivity is multiplying the national income, these pay rises are inflationary and illusory

Finally, the concept of poverty is relative to each society and changes over the years in each society. For example, in 1957, 3.539 million families, or eight per cent of the total, in the USA had incomes under $2,000 a year, while another 3.289 million or seven per cent had incomes between $2,000 to $2,999. Any income of less than $2,999 was in 1957 regarded as below the poverty line, as defined by the US Social Security Administration. Yet all these "poor" would have had a radio, and the majority a TV set, gas cooker, electric light, washing machine, second-hand car, and their income was close to, or above, the national income per head of $2,124, compared with only $958 in the UK, $742 in West Germany, and $62 in India. An Indian earning $2,999 in 1957 (Rs 14,400 at the then exchange rate) would have regarded himself as far above the poverty line. By 1966 US per capita income had risen to $3,154, and the numbers of those below $2,999 had been halved, while in India it had risen only to $80 per head. What seems poverty to an American student seems untold wealth to an Indian, and solid comfort to many a European.

III
THE SOLUTION

All this does not mean that the students have no cause for complaint. History again provides an analogy. In the UK today, Latin is widely regarded as an anachronistic and useless cultural "study", but the Grammer schools which began to multiply to teach Latin in the 14th and 15th centuries were not "cultural" schools for the sons of the rich but vocational training centres for those who wanted to become clerks, civil servants, lawyers, physicians, or diplomats. The new Latin curriculum was the gateway to all professions, because Latin was the language of business throughout Europe. With the widening of learning that followed the Renaissance, and later the rise of nationalism, Latin, as such, lost its vocational utility and became more and more a "cultural" study. This evoked new types of schools and new curricula.

Today technological advance is modifying the vocational utility of subjects like history, political science, and even economics. They will not cease to be taught but, as I said above, they need to be rendered more interdisciplinary and, above all, to the quantified. The older generation of university authorities, preoccupied with the (admitted) intellectual and character-building qualities of the existing curricula, have not yet realised that the vocational element needs to be brought up-to-date and orientated to the new technologies. Nor does this mean that the intellectual discipline and character-building qualities need be lost. What needs modifying is partly the content and partly the techniques of teaching. But, like the middle-aged printer's compositor, the middle-aged professor is daunted and frightened by what seems to him the loss of all that he has painfully built up over the years.

I conclude that we need far greater understanding of social and behavioural processes. This will not come from the natural scientists and the engineers for whom modern industrial society has, at the moment, an apparently inexhaustible demand, but from the social and behaviour scientists, who have not, as yet, had the research support that they need, so that they have been forced to concentrate on secondary problems instead of the large-scale enquiries essential to revolutionise our understanding of social problems. The basic problem of the universities of the west is not primarily one of education in science and engineering (which need strong injections from the Humanities, in which MIT of Boston is a pioneer) but how to transform the frustrated intellectual and professional potentialities of the Social Sciences and the Humanities into a force of equal weight to that of Science and Engineering.

Fortunately the task is being tackled within the OECD by the Committee for Scientific and Technological Personnel, and by its Centre for Educational Research and Innovation. In the UK, the Schools Council (160 Great Portland Street, London, W.1.), recruited from men and women of the younger generations, nominated by the Ministry of Education, the local education authorities, universities, colleges of education,

technical schools, etc., is working to revolutionise school curricula to reconcile the Humanities with the Technological explosion.

I sympathise with the young who claim to prefer the quite and leisurely life that the successful free enterprise system of the west has (at any rate in the years of their youth) brought them. Their attitude recalls that of the new middle classes in the UK in the 19th century who, when they had built up a successful family business to a point which enabled them to look in on the office once or twice a week to supervise the executives to whom they had delegated wide powers, felt no urge to extend their enterprises further, to chase after new markets. Above money, they prized leisure in fine country houses, hunting, shooting, or fishing, and going into public life, like the Peels, the Baldwins, the Gladstones, and so many other men of wealth who, without pay, undertook great responsibilities out of "noblesse oblige" to the community. With their wealth, their sons inherited their father's somewhat contemptuous attitude towards money-making for its own sake, and they continued the admirable traditions of combining the life of country gentleman with that of public service, the running of the free hospitals, the management of charitable trusts, and so on.

What eroded this agreeable era of cultured leisure was technological change. The textile, coal-mining, steel, railway, and other traditional industries were increasingly displaced or modernised by thrusting Americans, Germans, and others. The UK fell behind in growth industries. The wealth of the USA, West Germany, Japan, and other "materially minded" countries, which stuck to the "rat race", soared while the UK lagged.

Many Americans and other foreign observers sympathised. If, they said, the British are content with the degree of affluence attained, why shouldn't they enjoy leisure?

Whatever the outcome of the contemporary student's revolt, sooner or later he will, like today's English gentleman, have to re-apply his nose to the grindstone or else revert to mud huts, hunting and fishing, not for fun, but for a livelihood.

Britain Still Knocking at Common Market's Door

E. B. BROOK

VIENNA:

SPRING IS upon us in Europe with a rush and the long season full of committees and conferences is beginning and will last till early autumn brings the holiday season.

It is a suitable time, on the verge of investigations, negotiations and a growing rash of trade fairs to pause to see exactly where we are in Europe—for Europe, despite its divisions, disputes and stagnations, its partial dependence on the USA for defence and money, is still one of the world's most vital areas, rich, enterprising and largely selfish.

No one can see the miles (or kilometres) of queued commercial lorries and containers awaiting customs inspection at almost all west Europe's frontiers without being impressed at the immense amount of trading that is going on. Trade between the six countries constituting the Common Market grew again last year—providing a wider choice for customers, more stable prices and a steady incentive to investment.

The Market is the world's biggest importer: the great number of American firms and banks over here vigorously doing business is the surest indication that the world's foremost trading nation is increasingly impressed by the Market's potentialities and that the US Department of Commerce really takes note of what Brussels decides about steel exports and the import of American grains and textiles.

The six countries of the Common Market, by working together for a decade at every level and in every sector, are inevitably growing closer together and developing that type of corporate consciousness and awareness that makes it possible to solve really big problems. If Britain ever manages to join the Market it will need years to catch up with this corporate expertise.

And yet the absence of Britain, increasingly vigorous on the continent as a seller, forms an obstruction to progress as it might be at its maximum. The Market is like a car that runs very well but which would run better if it had an overdrive.

The Market car, to continue the simile, also needs an overhaul. The Treaty of Rome, its foundation document, is now 12 years old and no longer gives much guidance for the future. The Market headquarters in Brussels today is not what it was in Hallstain's day—it no longer represents the vision of a federal Europe. The present administration of the Market is too conciliatory to national governments and insufficiently challenging in vision and ideals. Nothing has been laid down for a common monetary, energy or industrial policy and there is no overall view of community needs in technology and research.

There is, indeed, progress in the form of the Mansholt plan, for agriculture—for a 10-year Market commitment to convert its farming into an efficient part of the economy and to end the ever-spiralling bill for subsidies. But for a plan so long-visioned a treaty is necessary and no government is going to sacrifice the support of its agricultural vote by agreeing to a sweeping long-term change.

There is not only a lack of political courage in tackling the agricultural problem, there is a threatening revival of old nationalist reflexes, brought out very nastily by last November's financial crisis. Even the Market Commission's modest scheme for automatic short-term support for one another in financial difficulties is unlikely to go through without inhibiting changes.

The basic cause of the Market's hesitations and unwillingness, its present condition of near-permanent crisis and stagnation is a lack of political agreement, from which harmonized taxation and thorough economic union could spring.

De Gaulle has shown that he cares only for France and that he is willing to sacrifice the Market if it gets in his way. The Germans are unwilling to upset de Gaulle because he has privately let them know that, if they cross him, he will come to an understanding with the Soviet Union and recognize East Germany as a sovereign state. Italy is racked with social troubles which threaten the health of its flourishing economy. The three small but thriving Benelux countries—Belgium, the Netherlands, and, Luxemburg—are frustrated and wondering what can be done next. Like Italy, Belgium has some serious social troubles of an even more sinister type not unknown in India--linguistic animosities.

The prospects of these conditions changing are, at present, slight. They appear permanent as long as de Gaulle lasts and, saving the fact that he is mortal, he is set to continue for at least another three years. It is an ironic comment on dynamic Europe to think that it is waiting for a man in his late seventies either to die or retire before it takes some obvious strides forward. It is more ironic when one reflects that the Market, while it waits, is being steadily strangled by its own milk, butter and sugar surpluses and by its food policies, and that the man on whom it waits is leading a nation that is driving itself fast to a new devaluation. While Britain rather pathetically waits to get into the Market the Benelux countries would now give a lot to be able to get out of it.

The moving finger writes

WHAT FRIGHTENS me about the Prime Minister is not her smugness, for all women are smug, but her inclination to political sinfulness. Through her thought, word and deed, she has made it clear that she has come to the conclusion that the Congress and other political parties in our country have now come to live in a Hobbesian state of nature in which political careers are apt to be nasty, brutish and short. Having formed this opinion, she is naturally not overscrupulous about the means her party may adopt for keeping itself alive in this struggle for survival. At the same time, the Prime Minister is evidently not reluctant nor does she hesitate to dissociate herself publicly or, more often, semi-publicly, from decisions or actions of her party's high command (in which she might have participated or with which she might have concurred earlier) the moment it becomes advantageous to her, whether in personal or factional terms, to do so. In these circumstances, there is perhaps not much point in our talking about a crisis of leadership. There is leadership all right, but if it does not happen to suit the country, so much the worse for the country. It seems to suit the Prime Minister after all.

* *

There is no doubt in my mind at all that there are not many Congress leaders today who do not find the notion that their party has any special responsibility for upholding the 'mores' of public life too naive and altogether too old-fashioned. Even the highest in the hierarchy of the party do not seem to have any qualms about demanding to know how the people are justified in expecting the Congress to be more honest or decent in its political strategy or tactics than other parties in theirs. In fact, many Congress men (and Congress women) seem to nurse a grievance that public opinion is loath to condone in their case departures from political proprieties of a kind which are apt to be passed over in silence or without much critical comment when other parties happen to be the guilty ones. The basic assumption here seems to be the one to which I had referred in the earlier paragraph. The argument, again, apparently is that public life in our country having deteriorated into a free-for-all with no holds barred, it is illogical and even unfair to expect of the Congress party that it should practise abstinence or even restraint in the use of its teeth or claws.

It is perhaps this attitude of the mind which explains the cynicism of the Congress leadership's reference to the Attorney General the question of the propriety of Mr D. P. Mishra being allowed to form a ministry in Madhya Pradesh after a judgment of the Madhya Pradesh High Court had gone against him in an election petition. It is true that there will be an appeal to the Supreme Court and that Mr Mishra has been able to obtain from the High Court an order staying the operation of its judgment (declaring his election to the state legislature null and void) pending the final disposal of the case by the Supreme Court and permitting him in the meanwhile to attend the state legislature without however being eligible to participate otherwise in the proceedings of the House. All the same the issue involved here is certainly not one of narrow legality, but is one of political decency and public morality. This is therefore not a matter where legal advice may be expected to do service for a political leadership's sense of what it owes to the people.

As it turned out, the Attorney General's opinion was not helpful to Mr Mishra's cause, but this is neither here nor there. There can be no serious questioning of the fact that, by its handling of this situation as of the Raja of Ramgarh question, the Congress High Command has compelled more people than ever before to regard it as a condemned crew whom the gods have willed to destroy. In the circumstances, Mrs Gandhi's recent sermon to the business community to rise above its sectional interests and function as a moral force must certainly be suspect, considering its source.

* *

Once again the Press Information Bureau of the Government of India was able to organise in the capital a useful conference of the economic editors which enabled financial journalists from various parts of the country to meet ministers and senior officials of economic ministries and exchange views with them off the record. This conference, which is becoming a much-appreciated annual event, was inaugurated by the Deputy Prime Minister, who submitted himself in a very relaxed manner indeed to a large number of questions, most but not all of which were naturally connected with the latest central budget, its proposals and its policies. Other meetings of the economic editors, over a period of four days, were with the Ministries of Food and Agriculture, Railways, Steel and Heavy Engineering, Industrial Development, Foreign Trade and Health and Family Planning. There was also a meeting with the Planning Commission and at the end of it all came an hour-long talk with the Prime Minister who, on this occasion, was at her political best.

The outstanding success of this conference was perhaps Mr C. M. Poonacha. His knowledge of his ministry's problems, responsibilities and functions was remarkable in its depth, detail and definition. Considering the short time he has been in the Ministry of Steel and Heavy Engineering, his prompt and full replies to the questions addressed to him about this problem ministry were impressive indeed. No wonder, one of my colleagues in the profession was prompted to recall the case of a previous Minister of Steel who, at the end of six months in that office, had not progressed beyond the "pig iron stage"

While there is no doubt that Mr Poonacha will make an intelligent and hard-working minister, I wish I could feel equally certain that he would be a strong enough minister too. There is a story of how he recently has had to tell a certain official of a public sector project that his services were no longer required and that after he had had his talk with this official, the latter came out with the impression that the minister thought highly of his work and was going to promote him. It is possible that I may have exaggerated a little here, but the fact remains that Mr Poonacha is one of those gentle souls who would want to make omelettes without breaking eggs. Considering the situation that prevails in some of the public sector projects under his care, such as the steel plant at Durgapur or the heavy engineering plant at Ranchi, I wonder whether the Minister of Steel can afford not to graduate into a man of steel. Provided he rightly sizes up the challenge, he should be able to do valuable work indeed. Great things, in fact, are expected of this newly constituted ministry which has the advantage, in its ministerial team, of Mr K. C. Pant's comprehension and purposefulness and Mr Qureshi's engaging enthusiasms.

Meanwhile, Mr Poonacha has started well. Selections for two vital appointments have been made without much time being lost after the new ministry has been set up. Mr Sondhi, the young engineer (he is in his early forties), chosen to be General Manager of the Bokaro steel project, has had an impressive career in ordnance factories and has proved himself to be a man of achievement by his excellent work in the construction field at the Defence Ministry's tank plant at Avadi. Mr Chalapathi Rao from the Chittaranjan Locomotive Works, one of our eminent railway engineers, is to be the Chairman of the Heavy Engineering Corporation at Ranchi. Incidentally, these selections suggest that the Railways and the ordnance factories are about the most dependable as well as the most accommodating source there is of higher managerial-cum-engineering talents for the public sector.

V.B.

The Bank of Baroda Limited

Regd. Office: Mandvi, Baroda

Directors' Report

The Directors have pleasure in submitting this Sixtieth Annual Report together with the statement of accounts for the year ended 31st December, 1968. The report of the Auditors is annexed.

Previous Year Rs.		This Year Rs.
93,41,957.70	The net profit for the year 1968 after providing for taxes, including Rs. 1,41,957.70 brought forward and after taking Rs. 29,70,712.59 towards depreciation on buildings and furniture amounts to	94,22,908.80
16,00,000.00	An ad-interim dividend at the rate of 16% p.a. subject to deduction of Income-tax at the appropriate rates was paid for the half-year ended 30th June, 1968 which absorbed	20,00,000.00
18,50,000.00	Amount transferred to Reserve Fund	18,60,000.00
21,50,000.00	Amount transferred to Special Reserve	25,00,000.00
36,00,000.00	Provision for Bonus to Staff	30,00,000.00
92,00,000.00		93,60,000.00
1,41,957.70	Balance of Profit to be carried forward	62,908.80
93,41,957.70		94,22,908.80

2. The Directors recommend to the shareholders, payment of a final dividend for the half-year ended 31st December, 1968 at the rate of 20% p.a. on all equity shares issued prior to the 30th June, 1968 (making 18% p.a. for the year), subject to deduction of tax at the appropriate rates, to be paid out of the Special Reserve and which will absorb Rs. 25,00,000.00.

3. During the year under review, the business of the Bank was satisfactory.

4. The Reserve Bank of India rate which ruled at 6% per annum since 17th February, 1965 was reduced to 5% p.a from 2nd March, 1968 and since then it has remained unchanged

5. With a view to achieving 'Social Control' over the Banking Industry in India, the Banking Regulation Act, 1949 was amended by Banking Laws (Amendment) Act, 1968 which came into force from 1st February, 1969. Your Directors have endeavoured to implement the provisions of the amended Act even prior to its coming into force, and that your Directors Shri N. M. Chokshi representing Banking, Shri B. K. Daphtary a Solicitor representing Law, Shri K. S. Engineer a Chartered Accountant representing Accountancy, Shri Utsava S. Parikh representing Agriculture and Rural Economy, Dr. Verghese Kurien representing Co-operation, Shri C. L. Gheevala an eminent economist representing economics and Shri G. B. Newalkar representing Small Scale Industry, are on the Board of Directors.

6. During the year 1968, the Bank opened 28 new branch offices as under:—

Assam	1	
Gujarat	15	
Haryana	1	
Madhya Pradesh	1	
Maharashtra	5	(One temporary branch office closed during the year.)
Mysore	1	
Rajasthan	1	(Temporary branch office closed during the year.)
Uttar Pradesh	2	
West Bengal	2	
East Africa	1	

making a total of 332 Branch offices (313 branch offices in India and 19 in foreign countries) as at 31st December, 1968. Since the beginning of the current year, the Bank has opened further branches at Nakhatrana (Dist. Kutch), Bhaktinagar (Dist. Rajkot), Ashtagam-Khadsupa Boarding (Dist. Bulsar), Shri Mahavirji (Dist. Sawai Madhopur) and Bhilad (Dist. Bulsar). The Bank proposes to open further branches at Anjar (Dist. Kutch) and at Mahuva (Dist. Sawai Madhopur) on 26th February, 1969 and 27th February, 1969, respectively.

The question of compensation to be paid to us as a result of taking over of our branches in Tanzania is yet under negotiations with the Government of Tanzania.

7. Position relating to the Bank's Narayanganj Branch (East Pakistan) as reported in the last report remained unchanged. Consequently returns relating to the year ended 31st December, 1968, for that branch office were not available. However, under the advice of the Reserve Bank of India, the last audited figures of Liabilities and Assets of the branch office as of 30th June, 1965, have been incorporated in the accounts as at 31st December, 1968.

8. The Bank applied for and obtained Exemption from Audit under Section 228 of the Companies Act, 1956 in respect of 131 branch offices including two temporary branches closed during the year in the Indian Union and in respect of one more branch in Pakistan at Narayanganj. The other 184 offices in India were either audited by the statutory auditors or branch auditors and all the 18 offices in other foreign countries have been audited by Chartered Accountants who are competent to act as Company Auditors under the laws of the respective countries and who have been approved by the Bank's Auditors for the said purpose.

9. In accordance with Article 145 of the Articles of Association of the Bank, four Directors :—

(1) Shri B. K. Daphtary,
(2) „ Keshav Prasad Goenka,
(3) „ A. M. M. Arunachalam,
(4) „ N. S. Shodhan

retire by rotation and being eligible, offer themselves for re-election.

10. As required by Section 10B of the Banking Regulation Act, 1949, your Directors have at their meeting held on 6th February, 1969 designated Shri N. M. Chokshi, who is the Chairman and Managing Director of the Company, as the Chairman of the Board of Directors having the management of the whole of the affairs of the Company subject to the superintendence, control and direction of the Board of Directors upon the same remuneration and perquisites as are at present applicable to him and that the term of his appointment as the Chairman of the Board of Directors up to 30th June, 1969 was approved, confirmed and ratified.

Shri Chokshi has so far not availed of the leave which he was entitled. With a view, therefore, to enable him to avail of the said leave, your Directors recommend that Shri Chokshi's term be extended up to 31st October, 1969. A resolution confirming his appointment as Chairman and the extension of the period up to 31st October, 1969 in this regard, appearing in the accompanying notice is commended for the Shareholders' approval.

11. Your Directors also recommend that during the leave period of Shri Chokshi, Shri M. G. Parikh, a person in the full time employment of the Company be the Acting Chairman of the Company so as to comply with the requirements of Section 10B of the Banking Regulation Act, 1949. With effect from 21st December, 1967 Shri M. G. Parikh was designated as the General Manager. Shri Parikh has served the Bank for over 27 years in many senior executive posts. Your Directors recommend that he may be appointed Chairman of the Board of Directors from the date upon which Shri Chokshi ceases to be Chairman of the Board of Directors. Resolutions appointing Shri M. G. Parikh as acting Chairman and the Chairman of the Board of Directors appearing in the accompanying notice are commended for the shareholders' approval.

12. The shareholders are requested to re-appoint the Bank's present Statutory Auditors M/s. K. S. Aiyar & Company and M/s. N. M. Raiji & Co., to hold office from the conclusion of this meeting up to the conclusion of the next Annual General Meeting and to fix their remuneration. An application has been made to the Reserve Bank of India for its approval to the re-appointment of the said Auditors as required by Section 30, of the Banking Regulation Act, 1949. If the approval of the Reserve Bank of India is not received by the date of the General Meeting the Resolution for the re-appointment of Auditors, if approved at the General Meeting will be subject to such modifications as the Reserve Bank of India may suggest.

For and on behalf of the Board,

Bombay,
Dated, 26th February, 1969.

N. M. CHOKSHI
Chairman

The Bank of

Balance Sheet as

31-12-1967		CAPITAL AND LIABILITIES		
Rs.	Rs.		Rs. P.	Rs. P.
		1. CAPITAL:		
		Authorised Capital:		
	8,00,00,000	8,00,000 Equity shares of Rs. 100 each	8,00,00,000.00	
		Issued & Subscribed Capital:		
	5,00,00,000	5,00,000 Equity shares of Rs. 100 each	5,00,00,000.00	
2,50,00,000		Amount called up at Rs. 50 per Equity share ...		2,50,00,000.00
		2. RESERVE FUND AND OTHER RESERVES:		
		Reserve Fund under Section 17 of the Banking Regulation		
	2,00,80,000	Act, 1949	2,19,40,000.00	
	94,63,760	Share Premium Account	94,63,760.00	
	21,50,000	Special Reserve*	25,00,000.00	
	1,72,750	Development Rebate	1,72,750.00	
3,18,66,510				3,40,76,510.00
		*(after payment of final dividend for the year ended 31-12-1967 Rs. 21,50,000)		
		3. DEPOSITS AND OTHER ACCOUNTS:		
	150,35,28,156	Fixed Deposits	170,80,32,425.65	
		(Including employees' security deposits Rs. 15,43,786.70).		
	69,77,67,763	Savings Bank Deposits	79,38,85,189.72	
	54,91,35,282	Current Accounts, Contingency Accounts, etc. ...	63,60,50,128.48	
275,04,31,201				313,79,67,743.85
		4. BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC.:		
	8,79,44,984	(i) In India	8,41,06,651.79	
		(Includes an amount of Rs. 8,41,00,019.00 borrowed from the Industrial Development Bank of India).		
	11,39,172	(ii) Outside India	17,671.08	
8,90,84,156				8,41,24,322.87
		Particulars:		
		(i) Secured:		
	—	(a) by part of Investments and Bills per contra ...	—	
	8,27,01,495	(b) under the Refinance Scheme of the Industrial Development Bank of India vide 5.1 (i) per contra	8,19,00,019.00	
		(ii) Unsecured:		
	52,43,489	(a) under the Refinance Scheme of the Industrial Development Bank of India vide 5.1 (i) per contra	22,00,000.00	
	11,39,172	(b) Others	24,303.87	
2,91,76,235		5. BILLS PAYABLE:		3,76,81,750.86
		6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE as per contra:		
...	14,82,04,943	(i) Payable in India	16,73,61,076.74	
	6,49,94,193	(ii) Payable outside India	9,17,70,344.02	
21,31,99,136				25,91,31,420.76
7,98,16,977		7. OTHER LIABILITIES		8,20,69,184.06
		Including:— Rs. P.		
		(a) Branch Adjustments 2,59,31,631.10		
		(b) Net amount realised to date in respect of assets under collection of the former New Citizen Bank of India Ltd.:		
		(i) In India 4,79,902.54		
		(ii) In Pakistan pending repatriation 4,919.80		
23,22,11,914		8 ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra		17,79,36,853.03
345,07,86,129		Carried over ...		383,79,87,785.43

Baroda Limited

at 31st December, 1968

31-12-1967 Rs.	Rs.	PROPERTY AND ASSETS	Rs. P.	Rs. P.	Rs. P.
		1. **CASH:**			
21,57,61,960		In hand and with Reserve Bank and State Bank of India (including foreign currency notes)			24,84,31,416.00
		2. **BALANCES WITH OTHER BANKS:**			
	48,50,587	(i) in India on Current Account ...		69,22,808.90	
	1,95,77,630	(ii) outside India on Current Account		2,32,91,430.76	
	4,02,66,146	(iii) outside India on Deposit Account . ..		4,38,52,537.59	
6,46,94,363					7,40,66,777.25
15,84,22,596		3. **MONEY AT CALL AND SHORT NOTICE**			18,32,79,398.62
		4 **INVESTMENTS AT MARKET VALUE:**			
		(i) Securities of the Central and State Governments and			
	63,85,69,026	other Trustee Securities		72,73,79,225.10	
	1,50,00,000	Treasury Bills of Central Government		2,00,00,000.00	
		(ii) Shares:			
	37,18,930	(a) Fully Paid Preference Shares ...		37,33,068.00	
	1,37,39,593	(b) Fully Paid Ordinary Shares		1,55,86,171.95	
	2,34,200	(c) Partly Paid Ordinary Shares ..		48,41,119.00	
	84,50,747	(iii) Debentures or Bonds		1,30,23,180.00	
		(iv) Other Investments:			
	5,52,22,874	(a) Foreign Government Loans and Treasury Bills and other Trustee Securities		5,75,68,430.50	
	90	(b) Fully Paid Ordinary Shares (foreign) .		1,02,090.00	
	Nil	(v) Gold		Nil	
73,49,35,460					84,22,33,284.55
		5 **ADVANCES:**			
		(Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors)			
		I. Loans, Cash Credits, Overdrafts, etc.:	Rs. P.		
	135,01,85,371	(i) in India (includes an amount of Rs. 8,41,00,019.00 relating to medium-term advances in respect of which finance has been obtained from the Industrial Development Bank of India as per contra)	148,51,69,650.51		
	15,49,08,833	(ii) outside India	17,22,35,807.90	165,74,05,458.41	
		II: Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments)			
	15,28,61,050	(i) payable in India	17,13,29,033.20		
	9,84,98,875	(ii) payable outside India	13,27,12,680.92	30,40,41,714.12	196,14,47,172.53
175,64,55,029					
		Particulars of Advances:			
	145,08,90,101	(i) Debts considered good in respect of which the banking company is fully secured. ..		161,18,13,877.88	
	9,40,82,682	(ii) Debts considered good for which the banking company holds no other security than the debtors' personal security including advances under joint and several pronotes.		9,94,50,505.23	
	21,14,82,246	(iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal securities of the debtors		25,01,82,789.42	
	Nil	(iv) Debts considered doubtful or bad. not provided for		Nil	
	175,64,55,029			196,14,47,172.53	
293,02,69,408		Carried over ...			330,94,58,048.95

The Bank of

Balance Sheet as

31-12-1967		CAPITAL AND LIABILITIES—(Contd.)			
Rs.	Rs.			Rs. P.	Rs. P.
345,07,86,129		Brought forward ...			383,79,87,785.43
		9. **PROFIT AND LOSS:**			
		Balance of profit:			
		As at 31st December 1967 before provision for bonus		37,41,957.70	
		Less: Bonus for 1967 paid to Staff.	50,87,079.19		
		Less: Amount transferred from Contingency Accounts to which transfers have been made from time to time including this year	14,87,079.19	36,00,000.00	
	1,25,333			1,41,957.70	
	92,16,624	Add: Profit for the year brought from the Profit and Loss Account		92,80,951.10	
	93,41,957			94,22,908.80	
	16,00,000	Less: Ad-interim dividend paid @16% p.a. for the half-year ended 30th June 1968 (subject to tax)	20,00,000		
	18,50,000	Amount transferred to Reserve Fund	18,60,000		
	21,50,000	Amount transferred to Special Reserve	25,00,000		
	36,00,000	Bonus to Staff	30,00,000	93,60,000.00	
1,41,957					62,908.80
		10. **CONTINGENT LIABILITIES:**	Rs. P.		
	1,35,450	(i) On partly paid shares of Joint Stock Companies	47,19,200.00		
	2,97,301	(ii) Claims against the banking company not acknowledged as debts	6,25,789.54		
	74,32,95,446	(iii) Money for which the banking company is contingently liable (including Rs. 11,98,224.83 for guarantees given on behalf of the directors and the officers of the Bank)	73,52,47,393.96		
	1,66,12,052	(iv) Liabilities on Bills of Exchange re-discounted	3,05,73.803.08		
	15,03,07,450	(v) Liability on account of outstanding Forward Exchange Contracts for purchases and sales P.	26,57,20,567.05		
	28,63,20,588	S.	36,76,39,621.75		

Note: (1) Provision to the full extent for future gratuities to the staff has not been made—the liability for which has not been ascertained.

(2) The Balance Sheet and Profit & Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Companies Act, 1949, and are not required to be and are therefore not drawn up in accordance with Schedule VI of the Companies Act, 1956.

(3) Some of the figures of the previous year have been regrouped to make them comparable with those of the current year.

(4) Reference is invited to para 7 of the Directors' Report regarding incorporation of the returns of Narayanganj Branch (East Pakistan).

345,09,28,086	Total:	383,80,50,694.23

K. S. AIYAR & CO.
Chartered Accountants.
N. M. RAIJI & CO.
Chartered Accountants.

N. M. CHOKSHI Chairman

KANTILAL NAHALCHAND)
ANANDLAL HIRALAL) Directors
CHINUBHAI CHIMANBHAI)

B. K. DAPHTARY)
K. P. GOENKA)
A.M.M. ARUNACHALAM)

Baroda Limited

at 31st December, 1968

31-12-1967 Rs.	31-12-1967 Rs.	PROPERTY AND ASSETS—(Contd.)	Rs. P.	Rs. P.
293,02,69,408		Brought forward ...		330,94,58,048.95
	10,92,223	(v) Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons	11,44,305.81	
	21,15,27,474	(vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members	10,69,87,669.58	
	11,71,741	(vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons	11,46,916.09	
	45,68,59,537	(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members ...	19,76,74,724.78	
	28,82,329	(ix) Due from banking companies	30,16,886.38	
		6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra:		
	14,82,04,943	(i) payable in India	16,73,61,076.74	
	6,49,94,193	(ii) payable outside India	9,17,70,344.02	
21,31,99,136				25,91,31,420.76
		7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS		
23,22,11,914		per contra		17,79,36,853.03
		8. PREMISES LESS DEPRECIATION:		
	1,97,74,621	Premises at cost to 31st December, 1967	2,30,38,755.55	
	34,36,359	Additions during the year	93,14,238.98	
	2,32,10,980		3,23,52,994.53	
	1,72,224	Less: Sales during the year	Nil	
	2,30,38,756		3,23,52,994.53	
	38,38,710	Less: Total depreciation to date	45,57,881.39	
1,92,00,046				2,77,95,113.14
		9. FURNITURE AND FIXTURES LESS DEPRECIATION:		
	2,23,21,877	Furniture and Fixtures at cost to 31st December, 1967	2,72,89,996.23	
	43,53,640	Additions during the year	43,89,115.45	
	2,66,75,517		3,16,79,111.68	
	4,22,461	Less: Sales during the year	1,34,080.82	
	2,62,53,056		3,15,45,030.86	
	1,08,32,034	Less: Total depreciation to date ...	1,40,47,307.05	
1,54,21,022				1,74,97,723.81
		10. OTHER ASSETS:		
	1,334	(i) Shares of Bank of Baroda (U.K.) Nominees Ltd. .	1,334.49	
	90,10,272	(ii) Interest accrued on Investments	1,06,56,620.49	
	38,47,338	(iii) Stamps and Stationery	41,22,089.75	
	71,67,469	(iv) Advances recoverable in cash or in kind ..	91,57,508.58	
	1,05,68,116	(v) Clearing Adjustments	89,24,990.36	
	99,78,031	(vi) Advance payment of income-tax	1,33,14,990.87	
4,05,72,560				4,61,77,534.54
54,000		11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS AT COST		54,000.00
345,09,28,086		Total: ...		383,80,50,694.23

NAVNITLAL S. SHODHAN
K. S. ENGINEER
G. B. NEWALKAR

Directors

VERGHESE KURIEN
C. L. GHEEVALA
UTSAVA S. PARIKH

M. G. PARIKH
General Manager

S. J. ASLOT
Chief Accountant

The Bank of

Profit and Loss Account For

31-12-1967	EXPENDITURE	
Rs.		Rs. P.
10,54,18,659	1. Interest paid on deposits, borrowings, etc.	11,75,29,395.40
5,67,14,147	2. Salaries and Allowances and Provident Fund	6,75,77,487.48
1,88,809	3. Directors' and Local Committee members' fees and allowances ...	2,40,070.77
74,43,121	4. Rent, Taxes, Insurance, Lighting, etc.	86,48,918.81
2,12,268	5. Law Charges	1,37,992.12
25,87,352	6. Postages, Telegrams and Stamps	32,04,010.74
1,81,438	7. Auditors' Fees	2,28,591.39
29,11,446	8. Depreciation on and repairs to the banking company's property ...	30,54,719.31
36,42,316	9. Stationery, Printing, Advertisement, etc.	45,49,675.35
—	10. Loss from sale of or dealing with non-banking assets	—
50,81,911	11. Other Expenditure	61,16,795.13
92,16,624	12. Balance of Profit (Subject to provision for Bonus to Staff) ...	92,80,951.10
19,35,98,091	Total ...	22,05,68,607.60

Note: Particulars of remuneration relating to the Chairman paid or provided for during the year:—

1967 Rs.		Rs. P.
72,000	1. Salary	72,000.00
7,500	2. Allowance (entertainment)	7,500.00
Nil	3. Sitting Fees	Nil
Nil	4. Bonus	Nil
6,000	5. Bank's contribution to Provident Fund	6,000.00
Nil	6. Payment by way of gratuities, pensions or otherwise in excess of the Bank's contribution and interest thereon	Nil
400	7. The Medical Insurance premium	400.00
3,000	8. The monetary value of any other benefits or perquisites (calculated in accordance with income-tax rules)	3,000.00
88,900	Total ...	88,900.00

CERTIFICATE PURSUANT TO RULE 6(c) OF THE COMPANIES (BRANCH AUDIT EXEMPTION) RULES, 1961

We hereby certify that no material change has taken place in the arrangements made for the audit of accounts of the Branch offices exempted from audit under Rule 4(1) (b) of the Companies (Branch Audit Exemption) Rules, 1961, enabling the Chartered Accountants employed by the Bank for the purpose of audit of the accounts of Branch Office, to visit the Branch Offices and to have access at all times to the books, accounts and vouchers of the Bank maintained at such Branch Offices, audited by them and for furnishing all such further information and explanations required by them and that such auditors have carried out the audit of the Branches assigned to them in accordance with the Internal Audit Programme drawn up by them and approved by the Bank's Statutory Auditors.

For THE BANK OF BARODA LIMITED

N. M. CHOKSHI
Chairman.

BOMBAY,
Dated 26th February, 1969.

ANANDLAL HIRALAL
Director

Baroda Limited

The Year Ended 31st December, 1968

31-12-1967	INCOME (Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions)	
Rs.		Rs. P.
16,70,18,582	1. Interest and Discount	19,09,55,098.81
2,60,08,817	2. Commission, Exchange and Brokerage	2,90,45,419.57
5,65,892	3. Rents	5,45,803.66
Nil	4. Net profit on sale of investments, gold and silver, land, premises and other assets	Nil
Nil	5. Net profit on revaluation of investments, gold and silver, land, premises and other assets	Nil
2,578	6. Income from non-banking assets and profit from sale of or dealing with such assets	4,547.67
2,222	7. Other receipts	17,737.89
19,35,98,091	Total ...	22,05,68,607.60

N. M. CHOKSHI Chairman

KANTILAL NAHALCHAND
ANANDLAL HIRALAL
CHINUBHAI CHIMANBHAI
B. K. DAPHTARY
K. P. GOENKA
A.M.M. ARUNACHALAM
) Directors.

NAVNITLAL S. SHODHAN
K. S. ENGINEER
G. B. NEWALKAR
VERGHESE KURIEN
C. L. GHEEVALA
UTSAVA S. PARIKH
) Directors

M. G. PARIKH
General Manager

S. J. ASLOT
Chief Accountant

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the foregoing Balance Sheet of the Bank of Baroda Ltd., as at 31st December, 1968 and also the foregoing Profit and Loss Account of the Bank for the year ended upon that date, in which are incorporated the returns from 64 branches audited by us, 138 branches audited by Branch Auditors and unaudited returns from 132 branches for which exemption from the provisions of Section 228 of Companies Act, 1956 has been obtained from the Central Government under Rule 4 clauses (a) and (b) of the Companies (Branch Audit Exemption) Rules, 1961.

We report that:

(a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory;

(b) the transactions of the Bank which have come to our notice have been within the powers of the Bank;

(c) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches of the Bank not visited by us;

(d) the Bank's Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and the returns;

(e) the reports on the accounts of the branches audited by Branch Auditors have been forwarded to us and the same have been considered by us in preparing our report;

(f) in our opinion and to the best of our information and according to the explanations given to us the said accounts together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required for banking companies and on such basis the said Balance Sheet gives a true and fair view of the state of the affairs of the Bank as at 31st December, 1968 and the Profit and Loss Account gives a true and fair view of the profit for the year ended upon that date.

BOMBAY,
Dated 27th February, 1969.

K. S. AIYAR & CO.
Chartered Accountants.
N. M. RAIJI & CO.
Chartered Accountants.

The Bank of Baroda Limited

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956.

The interest of the Bank of Baroda Limited in its subsidiary company, The Bank of Baroda (U.K.) Nominees Limited, as at 31st December, 1968, comprised of 100 fully paid ordinary shares of £.1 each, being the entire capital of the subsidiary company.

For the year ended 31st December, 1968, the subsidiary company had no income and all the expenses were borne by the Bank of Baroda Limited. The subsidiary company therefore, made no profit or sustained no loss and consequently the Profit and Loss Account of the Bank of Baroda Limited does not include any profit or loss of its subsidiary.

As the subsidiary company is incorporated and operating in the United Kingdom, its Balance Sheet, Directors' Report and Auditors' Report for the relevant year have been made out in accordance with the law in force in the United Kingdom.

N. M. CHOKSHI Chairman

KANTILAL NAHALCHAND)
ANANDLAL HIRALAL)
CHINUBHAI CHIMANBHAI)
B. K. DAPHTARY) Directors
K. P. GOENKA)
A. M. M. ARUNACHALAM)

NAVNITLAL S. SHODHAN)
K. S. ENGINEER)
G. B. NEWALKAR)
VERGHESE KURIEN)
C. L. GHEEVALA) Directors
UTSAVA S. PARIKH)

M. G. PARIKH General Manager
S. J. ASLOT Chief Accountant

BOMBAY,
Dated 26th February, 1969.

THE BANK OF BARODA (U.K.) NOMINEES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31st DECEMBER, 1968

The Directors submit their report and the audited accounts for the year ended 31st December, 1968.

PRINCIPAL ACTIVITY

The principal activity is the holding of securities as nominee.

STATE OF AFFAIRS

The company has had no income from the date of incorporation to date; all expenses have been paid by the parent company.

DIRECTORS

Mr E. St. C. Almeida was appointed an alternate Director for the periods 29th July to 31st August, 1968 and 18th November, 1968 to 31st May, 1969. Otherwise the composition of the Board remained unchanged during the year. The Directors at 31st December, 1968, were:

MR. R. C. SHAH
MR. M. A. BARRETTO

Mr R. C. Shah held 1 ordinary share jointly with, and as nominee of, the parent company. The Directors had no other interests in the shares of the company.

AUDITORS

Messrs. Spicer and Pegler, Chartered Accountants, have indicated their willingness to continue in office.

R. C. SHAH, Director.
E. St. C. ALMEIDA, Alternate Director.

LONDON, 1st January, 1969.

THE BANK OF BARODA (U. K.) NOMINEES LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 1968

	1968	1967
SHARE CAPITAL—		
Authorised, issued and fully paid Ordinary shares of £1 each	£ 100	£ 100
REPRESENTED BY—		
Cash at Bank	£ 100	£ 100

R. C. SHAH, Director.
E. St. C. ALMEIDA, Alternate Director

Notes to the Accounts

1. The company has had no income from the date of incorporation to date; all expenses have been paid by the parent company.
2. The company's ultimate parent is The Bank of Baroda Limited, incorporated in India.

Report of the Auditors to the Members of the Bank of Baroda (U.K.) Nominees Ltd.

We have examined the accounts set out above which in our opinion give a true and fair view of the state of affairs at 31st December, 1968, and comply with the Companies Acts 1948 and 1967.

St. Mary Axe House,
56/60, St. Mary Axe,
LONDON, E.C. 3.
Dated 17th January, 1969.

Spicer and Pegler
Chartered Accountants

COMPANY MEETINGS

E.I.D.—PARRY LIMITED

Address by Mr H.V.R. Iengar, Chairman, to Shareholders

Seventy-first Annual General Meeting to be held on 31st March 1969

The following Statement has been circulated to Shareholders of E.I.D.—Parry Limited by the Chairman, Mr. H. V. R. Iengar.

The year under report has been, from some points of view, a highly successful one, but, from other points of view, rather disappointing. It has been successful in the sense that the Group profit has been the highest so far in the history of the Company, but disappointing in the sense that in certain directions we were unable to achieve the results we had hoped for. The reasons for this were wholly beyond our control—being either the vagaries of nature or the long time it has been taking to clear certain projects on which we had set our mind.

Shareholders will have seen from the Accounts and the Directors' Report which have been in their hands for the statutory period that the Group Net Profit before taxation for the year 1968 is Rs 269.05 lakhs representing an increase of about 35% over last year's profit of Rs 200.30 lakhs. The following statistics may be found to be interesting:—

Year	Group Profits before tax Rs. lakhs
1963	75.22
1964	113.62
1965	127.16
1966	123.49
1967	200.30
1968	269.05

The Directors feel it safe to conclude that the Group's profit has reached a new and higher plateau and that the upward trend will continue over the long term in the years to come. I should, however, sound a note of caution in so far as the year 1968-69 is concerned because there are indications that a number of adverse factors might well have the effect, during this particular year, of halting the upward trend in the Group's profit level. Nevertheless, the long term future outlook is one of a higher and expanding plateau.

In my address to you last year, I had stated that the Indian economy had been subject to severe stresses and strains during 1966 and 1967 because of the recession and several other adverse factors. During the latter half of last year the general picture of the economy somewhat brightened. Helped by better rainfall, agricultural production, particularly of food-grains, rose sharply and reached new peaks. Despite the difficult labour situation, industrial production improved albeit slightly and towards the end of the year, the share market, which has been in the doldrums for quite some years now, became buoyant and cheerful.

The balance of payments position improved considerably and price levels became more stable. Whilst the Pound sterling in the main and the dollar to a lesser extent came under severe pressure, the Rupee showed, on the whole, greater stability, reflecting the generally improved economic situation in India. Certain parts of the country, however, particularly the Southern States, which are of direct and vital importance to the Group, suffered from inadequate rainfall and drought conditions. Large areas of the Andhra State, which is the principal area for the marketing of the Coromandel fertiliser GROMOR, were badly affected by drought owing to the widespread failure of the south-west monsoon. Some parts of Madras and Mysore States also suffered from severe drought, the affected areas being the main markets for the sale of fertilisers. It is most disappointing that when Coromandel went on stream and started producing high quality fertiliser, when the Government of India, in anticipation of a normal monsoon, arranged for heavy imports and Parrys had made all the necessary arrangements for handling a much larger quantity of fertiliser than in the previous year, we should have been met by such severe drought conditions. But for this, the profits of the fertiliser division would have been much greater than those actually achieved. It is against this background that the working results of the Group for the year under report are to be viewed.

2. GROUP RESULTS

Turnover, as well as profits expressed in Rupees, recorded higher levels, marking substantial increases over the previous year. I had mentioned last year that in the accounts for the year 1968 it would become necessary to adopt two different rates of exchange for conversion of the rupee figures to sterling as a consequence of the devaluation of the Pound sterling on 20th November 1967. The figures of profit for 1968 expressed in the Profit and Loss Account in sterling are therefore not directly comparable with the corresponding figures for the previous financial year. A proper appraisal of the Group's working results can be made only by reference to the Rupee figures contained in the Report and Accounts.

The factors that helped achieve larger profits are the improvement in the price of sugar as a result of permission to sell part of our production in the free market, the significantly improved result of the ceramics division, the increase in the profits of the consumer products division, and additional income from shipping and clearing services. On the other hand, interest charges have risen sharply because of the necessity to service larger working capital funds, and administration expenses have gone up further owing, in a large measure, to the liberalised pay scale structure introduced last year for the clerical and subordinate staff.

With the increase in the volume of our business, particularly the handling of fertiliser produced by Coromandel, the requirements of working capital finance have grown larger. During the year the temporary piling up of stocks of fertilisers because of adverse weather conditions compelled us to approach our bankers, the State Bank of India, on more than one occasion for provision of increased working capital finance. We are grateful to them for having readily acceded to our request. Nevertheless, from the ways and means position, the year was a somewhat difficult one. Your Directors have taken a long term view of the situation and are considering whether an approach should not be made to the shareholders for further

capital. That will be of assistance, not merely to help achieve a better balance between our owned funds and our loans, but also to help in providing finance for new projects. Shareholders will naturally be informed of the decision as soon as it is reached.

The total dividend for the year paid and proposed, on the Ordinary Share Capital, has been increased to 10%—a distribution of Rs 56,53,008 this year against Rs 45,93,069 paid last year. The total dividend per share is Rs 1.80 compared with Rs 1.46 per share last year, being an increase of over 23% and should, from all points of view, be considered satisfactory. After meeting the dividends from out of the profits of E.I.D.—Parry Ltd., for the current year, a total sum of Rs 15.57 lakhs excluding the statutory transfer to Development Rebate Reserve of as much as Rs 103 lakhs has been set aside for strengthening the reserves of the Group.

3. PRINCIPAL GROUP OPERATIONS

(a) **Ennore Factory:**

The factory was closed for the first forty days of the year for linking up work connected with the expansion of the plant. Thereafter, the plant manufactured 40,019 tonnes of Ammonium Phosphate representing 88% of the rated capacity for the period of operation, a slight increase over the previous year.

The expansion of the plant was completed by our contractors, Mitsubishi Shoji Kaisha Limited, and provides for the manufacture per year of 38,600 tonnes of Ammonium Sulphate from by-product Gypsum and Co2. A total of 11,977 tonnes of the product was manufactured during the year from the commissioning date.

A satisfactory agreement was reached with MSK on matters of contractual dispute.

(b) **Fertilisers:**

The market, which had operated under conditions of shortage for a number of years, underwent a radical change from the point of view both of supply and demand. There was a large improvement in the availability of raw materials to indigenous manufacturers and, in addition, there was a large increase in imports of finished fertilisers arranged by the Government of India. We were organised for a dramatic increase in fertiliser sales—and fully confident of achieving it, but for the drought referred to, which was quite unusual in its intensity. It is gratifying, nevertheless, that the Group maintained its leading position in the fertiliser marketing field in the southern and western states, and achieved an increase in business of over 20% compared to the previous year.

The Coromandel Fertilisers factory at Visakhapatnam was successfully commissioned during the year and has worked satisfactorily. The Ammonium Phosphate 28:28 produced by the factory has proved highly successful.

The chemicals section had another satisfactory year, but profit margins were trimmed to some extent due to the readier availability of raw materials compared to the previous year.

As in the case of the fertiliser business, the insecticides and fungicides business faced a difficult year, mainly due to the climatic conditions, but the scale of business was maintained and subsequently continued to expand.

Two seed processing units and a second insecticide formulation unit were under construction during the year and have since been satisfactorily completed.

(c) **Sugar:**

A series of measures introduced by the Government of India in August 1967 which had the effect of factories having to pay anything from Rs 90 to Rs 120 per tonne of cane arrested the decline in sugar production witnessed in the previous year when the price of cane was Rs 56.80.

The high price which factories were obliged to pay for cane, irrespective of the cost of cultivation, has encouraged cultivators to grow cane even at the expense of food crops, and many factories will face pressure this year for accepting more cane than they can crush in a season of six to seven months. The All-India sugar production in 1968-69 is expected to be between 28 lakh and 30 lakh tonnes against only 22.4 lakhs in the previous year. Oscillations of production, prices and profits seem to be a unique feature of the Indian sugar industry.

The Government's sugar policy for 1968-69 announced in September 1968 provides for the continuation of partial decontrol, but with as much as 70% of the production being taken over at the controlled price, and only 30% being released for free sales, as opposed to 60% and 40% respectively in the previous year. The minimum cane price remains the same as last year, viz., Rs 73.70 per tonne, but, once again, the factories are being asked by the authorities, under pressure from the growers, to pay a substantially larger price. No one—and, least of all, your Company which has large stakes in this agro-industry—disputes the need to give the cultivator a price for his produce which will not only cover his cost and the normal risks that go with agriculture, but give him also a very handsome margin. But what is happening now is that the industry is being pressed to pay a price which gives the cultivator, in the large majority of cases, a margin which is out of all proportion to the return he gets from other comparable crops. In other words, the industry is asked to take money out of the consumer and pay most of it to the grower, and then a large slice of the balance to Government as taxes. In the bargain, the industry is being accused of exploiting the consumer, whereas it is the Government's sugar policy that is solely responsible for this unusual state of affairs.

Production of sugar at your Nellikuppam factory during the year under review was 44,910 tonnes, the second highest for any factory in India. This is an increase of 25% over the previous year's production of 35,954 tonnes.

The factory resumed operations on 2nd October 1968 and it is hoped to crush 5 lakh tonnes. This is about 40,000 tonnes less than in 1967-68 and the reason is that the special season which normally starts in late August will, this year, have to be postponed until after 30th September, in order to proceed with the phased expansion and rehabilitation work. When the special season begins in October, the capacity of the factory will be 2,500-2,600 tonnes cane per day against 2,200 tonnes at present. The target is 2,750 tonnes, to be achieved in 1970-71.

As stated in my speech last year the award of the Government for the years 1958-59 and 1959-60 in regard to additional cane price for these years, which we considered was high but not unreasonably so, has been challenged by a grower with a writ petition in the Madras High Court. The result is still awaited. In the meantime, payment has been made in regard to the years 1958-59 and 1959-60. The award for 1960-61 and 1961-62 has now been announced and payment will be made within the stipulated time.

(d) **Ceramics:**

The turnover of our Ceramics factory at Ranipet established an all-time record of more than a crore of rupees, contributed mostly by sales of "Parryware", our brand of vitreous sanitaryware. A net work of an organised All-India distribution and after sales set-up helped to recover substantial ground

from out of a market which was in the grip of acute competition. Exports made further headway, and markets now include East Africa, besides, Burma, Ceylon and Singapore.

A new development in our ceramics division was the manufacture of specialised categories of tower packings, tailored to customers' specification, and while several contracts have already been fulfilled, this diversification should enable further growth of sales from new Chemicals and Fertiliser units in the country.

(e) Trading Activities:

Turnover of consumer products for the year rose sharply setting up an all-time record. This was made possible by our wide distribution network being able fully to exploit the more liberal supplies made available by our Principals. I am happy to say again that our relationship with our Principals has been extremely cordial and, I am sure, mutually beneficial.

Despite the engineering industry being still in the grip of recession, although to a lesser degree than previously, the sales of engineering products registered a small increase. The steps taken by us to reduce the capital employed on this sector have proved fruitful and resulted in lower holdings of stocks. Our shipping and clearing services which are steadily expanding yielded a bigger slice of earnings this year.

I need hardly emphasise the pivotal role which our trading activities play in the totality of the Group's operations.

(f) Herdillia Chemicals Limited:

Last year, in my address to you, I had stated that the Rs 14-crore factory of Herdillia Chemicals Limited was then expected to go into commercial production shortly. I am happy to say that commercial production in fact commenced in the first quarter of 1968 and all plants have functioned satisfactorily. Whilst the sales achieved during the first year of operation slightly exceeded Rs 3 crores and can thus be considered satisfactory, these would have been better but for production being adversely affected by numerous power failures and hampered to a lesser extent by the shortage of certain indigenous raw materials which had therefore to be imported. It is expected that the turnover for the current year would substantially exceed that of last year.

4. DEVELOPMENT PROGRAMME

I had indicated in my address last year that your Company had certain schemes under examination to widen the scope of its operations. One of these was the basic manufacture of a well-proved insecticide. In the matter of the know-how for this, we ran up against a tight international cartel and drew a complete blank from the western countries and Japan. Our attempts to get the know-how from Eastern Europe were also unsuccessful. A laboratory process is said to have been developed in the Central Food Research Laboratory at Mysore, but to what extent this is capable of exploitation on a commercial scale is yet to be examined. This whole exercise, both of scouring the outside world for a process know-how and of investigating to what extent a process claimed to be locally available is commercially exploitable, is a long and weary one.

While on this subject, may I say that this Group is entirely at one with the Government of India that, if a process is locally available, it would be inexcusable to buy it from overseas. The question, however, in all cases is whether the claims made locally are justified and more especially whether claims made on the basis of laboratory experiments are valid in the context of plants of commercial size. Our experience is that the procedure for deciding whether a local process can be exploited takes an unconscionably long time.

As stated earlier, we have already put up two seed processing units in Madras State which have commenced operations. Barring unforeseen circumstances, a satisfactory return should accrue to us even in the initial year of operation. We are also putting up a cattle-feed manufacturing unit at Ennore and this should go into production during the course of the year. Various other similar schemes, individually not requiring heavy capital investment and designed to make our services to the agricultural sector more comprehensive, are on the anvil and will gradually be implemented, to be financed to the maximum extent possible from internal resources.

Apart from new projects in the agricultural field, your Directors are actively investigating several projects in other fields. Shareholders will be informed in due course about these projects when more concrete information is available. I am sure shareholders will agree that it is in the interests of the Group further to widen the scope of its activities and to broaden its industrial base.

5 CENTRAL BUDGET

Contrary to expectations, the Central Government budget proposals for 1969 extend no tax relief to the corporate sector, and the rates of taxation on the Group's profits remain the same

Two new measures of indirect taxation may have a significant bearing on the fortunes of our Group. I refer first to the conversion of the specific excise duty on sugar into an ad valorem duty which will increase the excise duty on free-market sugar by at least Rs 400 per tonne at the prevailing prices and then to the levy of 10% excise duty ad valorem on fertilisers. In both cases it is too early to say whether we shall be able to recover the amount of excise duty from the consumer, but this will be necessary if we are to maintain our profit margins.

6. LABOUR RELATIONS

Our relations with employees during the year have generally been satisfactory. However, during the current cane season, the employees in the Nellikuppam factory went on a strike from 10th January 1969, following a general demand by the Trade Unions in the sugar factories in the State for a wage revision, etc. As a result of discussions before the State Labour Commissioner, the strike was called off from 24th January 1969.

It may be pertinent to mention in this connection that the wages and other terms of service of the employees in our Nellikuppam factory are more generous than the recommendations of the first Sugar Wage Board and this strike, which incidentally occurred after a lapse of 30 years, may have been precipitated for reasons not directly connected with the question of wages and other terms of service. It is to be hoped that following an amicable settlement on the matters raised, we can now look forward to continuing the cordial relations which have always existed in the past.

It is a matter of regret that certain Trade Unions have resorted to strikes in complete disregard of subsisting bipartite settlements, and it is hoped that this unhealthy trend will be taken note of by the Government.

The unanimous recommendations of the First Wage Board for the Heavy Chemical and Fertiliser Industry have been accepted by the Government of India and we are now examining these proposals with a view to implementing the recommendations in our Ennore, Ranipet and Tadepalli factories.

7 CHANGES IN BOARD

It is with profound regret that I have to record the death of Mr V. Ramakrishna on 28th November 1968. He was a Director of our Company from 15th April 1954. His wide experience of business and industrial affairs and wise counsel and guidance have been of immense value to the Company.

Mr N. G. Bowen, Joint Managing Director, retired with effect from 1st December 1968 and I wish to place on record the valuable services rendered by him to the Group in various capacities over the span of twentytwo years.

On Mr N. G. Bowen's departure, Mr J. S. Prabhu, the Deputy Managing Director, took over as Joint Managing Director. Mr C. P. Featherstone joined the Board as from 1st December 1968 and was appointed Deputy Managing Director of the Company.

NOTE: The above Statement is not a report of the proceedings of the Annual General Meeting, which will be held on 31st March 1969.

CANARA BANK LIMITED

Statement by Shri K. P. J. Prabhu, Chairman, Canara Bank Ltd, at the 63rd Annual General Meeting held at Mangalore, on Friday, 21st March, 1969

The Bank's audited Balance Sheet as at 31.12.1968, and the Profit & Loss Account for the year ended that date, would already have received your attention. It may have pleased you to notice that they reflect all-round progress of the Bank, and better working results than in the recent few years.

1968 was a year of comparative stability and economic recovery for the country. The fairly satisfactory level of food production at 96 million tons, about the same as in the previous year, despite not very favourable rains, the consequent relief in the pressure on prices, the heartening strides on the agricultural front, the abatement in recessionary conditions in industry, the substantial improvement in the country's exports and its favourable impact on our foreign trade balances, all contributed to a better performance by banks. The deposits of scheduled commercial banks showed an increase of Rs 442 crores revealing a growth rate of 11.7% as against Rs 386 crores or 11.4% in the previous year. Significantly, time deposits accounted for a lion's share of this increase, viz., Rs 381 crores, as against Rs 186 crores in 1967. Likewise, bank credit expanded by as much as Rs 333 crores against Rs 292.5 crores in the previous year.

For your Bank, 1968 was a year of expansion. As you would have noted, steady growth has been an enduring feature, even in generally lean years. During the year under report, total deposits improved from Rs 126.56 crores to Rs 146.44 crores. The Rs 19.88 crores (or 15.7%) rise is the highest in a year since 1964. Keeping up the rapid pace of the previous year, advances increased by Rs 16.37 crores or 20.4%, to reach Rs 96.72 crores. The number of our depositors expanded very considerably, to exceed the million mark, this again being the best performance in recent years.

The above results are mainly traceable to the vigorous expansion which your bank undertook, both in services, and areas of operation. Responding to the call of the monetary authorities for progressive monetising of the economy by taking banking services to unbanked and underbanked regions, we opened 33 new branches, a record for us in a year. Of these, 16 are small rural centres having population of 10,000 or less, and 5 semi-urban centres, and in 17 among them, there were no banking facilities previously. The 12 urban branches we opened include four in underbanked States viz., Agra in U.P., Jamshedpur in Bihar, Indore in Madhya Pradesh, and Faridabad in Haryana. The new branches, including those opened in the North, have been doing encouragingly. The rural branches have immediately entered into the spirit of the countryside, and have commenced making advances to progressive farmers, small traders, artisans, entrepreneurs etc., a first step for inculcation of the banking habit. In the direction of attaining economic viability which is the chief problem connected with the opening of branches in rural areas, your bank successfully experimented with solutions aimed at keeping down costs while, at the same time, creating the maximum possible impact.

When the Bank opened its branch at Vallan, a small village near Tanjore, on 30.5.1968, it became the first bank in the private sector to open a one-man banking office. The procedures evolved and the response we received proved so heartening that we opened four more such branches, at Ripponpet (Shimoga Dist.), Londa (Belgaum Dist.), Kavoor (South Kanara Dist.), and Bidadi (Bangalore District). Three more, at Kamatgi (Bijapur, Dist.), Farangipet and Sampaje (South Kanara Dist.) have been opened in the current year. This probably makes for the largest complement of one-man offices for any individual bank, both in the public and private sectors.

It will also please you to know that our 'itinerant agents' experiment, a set up in which a branch in a centrally located village is able to cater to the banking requirements of a group of selected villages around it through visiting representatives, was tried out successfully. This scheme now makes it possible for a rural branch to treble or quadruple its area coverage in the extension of banking services. I am also happy to tell you that this suggestion of ours has found acceptance in the highest quarters, to become the forerunner of the idea of "satellite branches" for serving rural areas, which has now been suggested for the active consideration of banks.

Our 'Janapriya Deposits', a scheme in which deposit receipts in denominations of Rs 10/- are issued at the very doorsteps of rural depositors through the medium of authorised agents, has had a successful run at our Mysore State branches. This experience has now enabled extension of the scheme to our entire branch network, and introduction of the deposit in 2 higher denominations, viz., Rs 100/- and Rs 500/-. This last is a recent improvement made in the light of our experience that quite a few people in the countryside welcome the idea of being able to put by larger sums at attractive rates of interest, without actually having to call at the bank for the purpose.

On 27th September last the Pangal Nayak Bank Ltd., Udipi, a progressive small bank of this, our home district, came into our fold under an agreement of voluntary take over of its selective assets and outside liabilities. While their offices at Bhadravati and Tumkur were closed consequent on the transfer of the business to our branches already functioning in those places, we acquired 22 additional branches as a result of this take-over. It is noteworthy that, with the exception of three, all these branches are in rural and semi-urban centres. The further strengthening during the year of the marked rural bias of our branches network, and the spread of banking services to previously unbanked areas, can be seen from the following comparative populationwise, classification of our branches

	At the end of 1967	At the end of 1968
No. of branches at centres having population upto 10,000	17	43
" above 10,000 but less than 25,000	59	69
" above 25,000 " 50,000	24	28
" above 50,000 " 1,00,000	36	37
" above 1,00,000 "	111	125
	247	302
No. of centres where ours is the only Commercial bank operating	29	54

Our main concern during the year was to enlarge our services to small depositors and borrowers. With some streamlining, a deposit scheme known as 'Nitya Nidhi' deposit, which was in existence in the Pangal Nayak Bank, was applied to cover our entire branch network. This attractive scheme permits sums even as small as 25 paise being paid in by a depositor, and if paid in daily, will add up (with interest) to a tidy sum of Rs 500/- at the end of 5 years. These daily deposits, are collected at the very doors of the depositors through the medium of authorised agents. It can therefore

reach a sizeable cross-section of people as no other type of deposit can. Looking at the response it has elicited at our branches, we expect this scheme to figure prominently in the mobilisation of deposits in the current and coming years.

The emphasis in the credit policy during the year under review was on enlarging credit assistance to the priority sectors, viz., Agriculture, Small-Scale Industry, and Exports. Simultaneously, the cost of credit was sought to be lowered. With effect from 4.3.1968, the Bank Rate was reduced from 6 to 5%, and the maximum interest rate chargeable on advances was brought down from 10 to 9½% p.a. On packing credit advances to exporters, a reduced ceiling rate of 6% p.a. was uniformly fixed. Banks were also called upon to bring about a general reduction of ½% p.a. in the rates charged on at least 80% of the total lendings. Effective from 4.3.1968, the deposit rates have also been lowered by ½% p.a. in all categories including savings bank deposits. However, the benefit of reduction in deposit rates, especially on term deposits, could not immediately accrue to banks, since the reduced rates would be applicable only on fresh deposits or renewals of old deposits. The need to bridge the earnings gap, and the emphasis on increased credit to priority sectors, have had the effect of pushing up the credit levels of banks in relation to deposits. Nevertheless, as you will have noted, your bank was able to considerably augment its earnings through judicious handling of its credit and investments portfolios, while maintaining a satisfactory liquidity position at the same time. The year's working has resulted in a higher net profit of Rs 44.43 lakhs (Rs 39.64 lakhs in 1967). During the year, your bank took several measures for improving its credit assistance to the preferred credit sectors

In the first place, we liberalised lending terms to Small-Scale Industries by reducing margin requirements for both term finance and working finance. Appreciating the difficulty of limited resources faced by small units, the bank also commenced granting hypothecation advances to deserving units in order that their production programmes may not be hampered by their having to obtain key loans against stocks. To ensure speedier assistance, branch managers were vested with wider discretionary powers to make advances to small industries without prior reference to Head Office, in such exigencies as where larger stock of raw materials need to be acquired for executing extra orders on hand, and meeting extra wages etc. Also, we strengthened our field staff for on-the-spot study of the needs of small-scale industrial units for quicker processing of their proposals. We have recruited two experienced Officers who have put in work with Small-Industry Service Institutes and Departments of Industries. Based at Bombay and Bangalore, these officers are now entrusted with enlarging our field of assistance to small-scale industries on an areawise approach. For instance, in Mysore State, we are working in depth in Bangalore, Davangere, Belgaum, Hubli, Dharwar, Mangalore etc. These areas, it may be recalled, have been selected by the State Government for intensive development of small-scale industries. In Maharashtra, we are concentrating on centres like Kolhapur, Poona, Bombay City and in certain areas in Thana District.

The main problem in the matter of enlarging credit assistance to small industries is still one of scouting really deserving and technically sound units who are genuinely short of finance. At Hubli, Belgaum, Dharwar and Gadag the Bank took a novel step of conducting special exhibitions of its own to bring about greater awareness of the industrial opportunities available and to make our facilities better known to entrepreneurs. Representatives of the press and all registered industrialists, as well as those interested in setting up industries were invited to visit the Exhibitions.

The Bank also participated in the 'March of Mysore' Exhibition at Gulbarga by having a pavilion of its own. Our special publicity pavilion on the occasion of the 400th Anniversary of the Jewish Synagogue in Cochin was inaugurated by the Hon. Prime Minister, Smt. Indira Gandhi, and our pavilion at Trichur at the Golden Jubilee Celebrations of the St. Thomas College was inaugurated by the Hon. Shri Damodaran Potti, Speaker of the Kerala Assembly.

All these contacts are now being pursued to see in what way we can be of assistance to them.

In carrying out the objects and benefits of social control to the people, it is the delivery points, i.e., the branches, that have the key role to play. Theirs is the function as of capillaries in the human body, healthy capillaries being as necessary for well-being as a strong heart. A special responsibility in this regard rests on new branches whose endeavour has to be to prove useful as quickly as possible in the development of the respective areas and communities where they are located.

It was therefore the special endeavour of your Chairman and senior officers during the year to watch this aspect at the floor level of the branches. I am glad to say that several of our new branches like Agra, Faridabad, Indore, Kandivli and Vikhroli-Bombay etc., have been able to bring in many desirable units into our fold. The new branches are specially exhorted to be on the look out for deserving small borrowers, because it is only in this way that productive enterprise in any centre can be encouraged.

I am glad to say that your bank has adopted a similar approach in the rural areas, showing earnestness to make advances to the farmers from the very beginning. Our approach in areas having water sources, but where only a single crop is grown, has been to see that loans for pump-sets are made available, so that progressive farmers may be enabled to raise additional crops, an essential step in increasing food production all-round. It is gratifying that more and more farmers are availing of our loan services by way of seasonal crop finance, loans for tractors, reclamation of land, building farm sheds, fences, purchase of bullocks, setting up ancillary occupations like poultry, dairy etc.

At most of our rural branches, we have been granting gold loans on specially liberal terms, particularly to borrowers known to be cultivators themselves. Our experience confirms that these loans, apart from being seasonal in character, are a sure way of reducing the dependence of farmers on the village money lenders, and therefore, in making them progressively more bank-minded.

During the year, we strengthened our Agricultural Finance Cell by taking a senior Deputy Director of Agriculture to function as our Agricultural Adviser. We have also appointed agricultural graduates as extension officers to make on the spot visits to farms in order to speed up the process of sanctioning loans, to watch utilisation, and assist adherence to repayment schedules. Our Agricultural Finance Wing started barely 15 months ago, now has a not unimpressive record of having sanctioned more than 1466 loans for diverse purposes at branches in 5 States and in the union territories of Delhi, Goa and Pondicherry, for amounts aggregating to Rs 1.82 crores not including indirect finance, finance to fisheries and distribution finance for fertilisers. It is our experience that extending credit directly to the farmer in this manner has engendered confidence and goodwill much sooner than otherwise, and we have been compensated by the increasing number of small savings accounts enlisted in return.

I may in this context refer to one other field in which your bank took particular pains to extend its assistance during the year. In the small centres where we function, we found that there is a vast body of self-employed people engaged in various productive activities, e.g., small workshops, furniture makers, cobblers, tailors, bakers and biscuit makers, tin smiths etc., who deserve credit assistance. In the past also, we have considered their applications for loans, but on individual basis. In the context of our increased expansion in rural and semi-

urban centres, we felt impelled to have a scheme of assistance which would make it possible to more speedily grant loans for encouraging any productive or worthwhile activity on a systematic basis. That would be a sure way of improving their skills, earning capacity, standards of living, and, if done on a wide enough scale, would itself result in community development. It would also encourage more people to think of acquiring skills, of becoming self-employed, rather than swelling the corridors of the overcrowded employment exchanges, or joining the mad rush to the urban centres.

As a quick way of making an impact with such assistance, we have laid down guidelines and invested the branch managers themselves with the necessary powers to grant loans without prior reference to the Head Office. Judicious choice of borrowers of integrity, making sure that the purpose is productive and not inflationary, and ensuring that the loan is used for the purpose for which it is granted, are the precautions enjoined. Every rural and small town branch is asked to make at least a few such loans. I am glad to say that the experience so far has been heartening, although, in terms of quantum of assistance, these loans cannot add up to much, or make much difference to the figures in the balance sheet.

Our quest for ways of proving socially helpful has also led us to finding ways and means of helping the middle class depositors of the bank who have been the backbone of the bank's deposit structure. Some of our recently introduced schemes are the result of such a quest.

For instance, we have instituted a scheme of assisting doctors who wish to set up practice, specially in smaller centres. Our scheme envisages a medium term instalment advance for purchase of equipment, medicines, a conveyance like cycle or motor cycle, besides permitting a certain monthly sum being advanced for supplementing the living expenses of the doctor during the first 6-12 months of his practice. There is also a repayment holiday of 6-12 months after the loans are granted.

For our Savings Bank depositors who have demanded little, and have always shown understanding and patience, we have instituted a scheme of occasional overdrawings. For allowing these overdrawings, discretion is vested in branch managers. These overdrawings are meant to meet situations that may occasionally arise where, owing to a delay in receipt of a certain credit or other unforeseen reason, there are insufficient funds to meet a withdrawal. The scheme is necessarily intended to meet genuine cases of hardship that may unexpectedly arise, and is different from the type of overdrawings allowed for trade; and the general conduct of the account is of course a criterion. A scheme has also been envisaged of allowing occasional overdrawings and granting loans for certain purposes to employees of reputed concerns whose salaries are paid by cheques sent by the employers directly to the Bank.

We have also devised a scheme for grant of loans against consumer durables, but with a difference. We have felt it socially desirable to avoid loans which tend to bring about inflationary pressures on prices, or, as happens in some cases, encourage people to live beyond their means. Our scheme is therefore of granting loans against durable utility articles which increase the income or productivity, and thereby enable the borrowers to repay through the increased income arising out of saving in costs or labour. Loans to commercial institutes who train boys and girls, job typists, sales or press representatives, schools etc., for acquiring typewriters; to hotels, chemist shops, nursing homes etc., for acquiring refrigerators, radios, fans, air-conditioning equipment; loans against cycles for cycle hirers or to villagers who take their produce to nearby markets; for camera and photographic accessories to professional photographers and research students etc., are some of the purposes covered under our scheme of loans against consumer durables.

Since cars, scooters and motor bicycles are becoming near-necessities in larger towns and cities, a scheme of loans for purchase of such vehicles to eligible borrowers, who have the necessary repaying capacity, has been devised, with a period of upto 30 months allowed for repayment.

While I have tried to sum up our aspirations and exertions during the first full year under social control, the ultimate problem before banks, in my opinion, is that of creating the necessary impact over wide areas and regions. This will call for both ingenuity and willingness to experiment. It was in this context that I had referred in my earlier statement to the need for a set up where we shall have local representatives from among the leading citizens of a village to function as the final delivery points for dissemination of banking services. I am visualising that, in the not too distant future, it would be possible even to harness the skills and services of the younger generation among the village money lenders, and to interest them in taking up such propositions like starting a small-scale industry, service station, or a hiring unit for tractors and the like. This would help canalise their skills, intimate knowledge of people and places, besides also their capital along productive channels, and also help development and provide employment to people. With some such links alone, banks can perhaps achieve a coverage of the dimension required to serve India's unbanked villages numbering 5,70,000 in the foreseeable future. To function in this manner and to become an integral part of a region, it would be obviously necessary for a bank to concentrate in particular areas. This is the latest concept popularly referred to as the "area approach" or as the "area based approach". It naturally presupposes that a bank should endeavour to fill up all potential unbanked or underbanked centres in its own area of specialisation, although opening branches in certain important capital towns of commercial or industrial importance to serve as link centres is not ruled out. This will be an important subject of study for the Banking Commission that has been recently set up to go into the working of commercial and co-operative banks, as well as multani and other private money lenders. No more appropriate time could have been chosen for setting up this Commission than now, when the banks are trying to adapt themselves to the new changes and requirements.

In order to assist the area based spread of banking facilities in unbanked areas and for identification of potential areas among them, a method of surveying jointly with commercial banks was initiated by the Reserve Bank in the latter half of 1968. I am glad to say that your bank was associated with two such surveys, one of certain districts in Orissa State, and another of two districts in Mysore. During the current year, one more such joint survey of two districts in Kerala State has been undertaken.

In conclusion, I might say that Social Control has not presented any particular difficulties to us. My thinking is that Social Control has infused new life and blood into the banking system. There is still considerable way to go for the requisite organisational and attitudinal changes to come about in the rank and file of the staff of Banks, which are necessary for any cognisable results to become evident.

At the conclusion of a satisfactory year of working, I may therefore add that your Bank looks forward with greater confidence at the future. Before I close, I would refer to the proposed capital issue that has been thought of in the context of the considerable expansion in the bank's deposit resources and scale of operations. And I look forward to the same generous response and participation that our capital issues in the past have unfailingly received. Needless to say, it will be our continued endeavour to deserve this confidence and support members have reposed in the management.

NOTE: This does not purport to be the report of the proceedings of the Annual General Meeting.

MADURA MILLS COMPANY LIMITED

Regd. Office: "Pandyan Building", West Veli Street, Madurai

Speech of the Chairman, Dr. Rajah Sir M. A. Muthiah Chettiar, at the Annual General Meeting of the Shareholders of the Company held at Pandyan Building, Madurai, on 24th March 1969.

Gentlemen,

It is my privilege once again to welcome you to our Annual General Meeting, and I have great pleasure in doing so. I trust that I have your permission to take as read the Report of the Directors and the Audited Accounts of the Company for the year ended 31st December 1968 which have already been circulated to you in the prescribed manner.

Before proceeding further, I must refer to the great loss which Tamil Nadu has recently suffered by the sad and untimely death in office of its late Chief Minister Thiru C. N. Annadurai. Amid the present uncertainties of the political situation in the country, Thiru Annadurai had been remarkably successful in gaining the confidence of the common man in Tamil Nadu in his efforts to shape the affairs of the State and to develop satisfactory relations with the Centre for the benefit of all. It is our earnest hope that Thiru Annadurai's successors in office will succeed in bringing to the State, and more particularly to the industries in it, the measure of stability and prosperity which is essential for its progress and welfare.

After the rising trend of profits in the previous two years, the results for 1968 will be a disappointment to you. Although the volume of sales was maintained around the Rs 25 crore level, the profit margins obtainable were very sharply reduced. I am afraid that these results go to prove that the well publicised difficulties of the textile industry in the past year were very real, and were shared by your Company. Despite the good monsoon in 1967 and the consequently more stable prices of most commodities, the demand for yarn and cloth continued for most of 1968 to be unusually weak. Forced distress selling by a number of mills drew prices down, particularly in the yarn trade, to most unremunerative levels. Even so yarn stocks accumulated so that production had to be restricted, involving us in substantial payments of lay-off and voluntary retirement compensation. By the year end however our stocks were standing at satisfactory levels, and we had largely eliminated lay-off of available workers. Demand is improving, though slowly, and given a continuing and general recovery in national confidence it would seem now that the recessionary phase in our economy is behind us. But, even with a general recovery in the national economy, the Spinning Mills of Tamil Nadu are likely to be faced with continuing difficulty until there are enough power looms in the State to give better assurance of a market for their yarn. The reliefs in the Excise Duties being proposed for this year's Budget will be of no significant help to us. Indeed in one important sector of our business, the manufacture of industrial fabrics such as canvas and duck, the altogether excessive increase in excise duty which has been proposed could have a damaging effect on its development.

While we can take pride in our exports to the value of Rs 550 lakhs in 1968, this figure is below our record 1967 achievement. The restrictions which had to be applied following the abnormally heavy cloth exports to the U.K. early in 1968 were particularly hurtful to the substantial trade we had established with direct consumers there based on regular monthly shipments. The less buoyant economic conditions in the U.S.A. textile trade also brought about some reduction in the volume of business done. However this curtailment in the regular export business we had been developing has led us to open up several new export connections which we expect to ensure for us a steady expansion of exports. With the cloth export quota of the U.K. now more closely regulated to ensure the maximum benefit in earnings of foreign exchange for the country, your Company expects to regain its former volume of this business. I am also glad to be able to assure you that arrangements were promptly made with our dealers and customers in the U.K. to overcome the difficulties created when the British Government introduced towards the end of 1968 an Import Deposit Scheme on most imports including textiles. The quality of our "Harvey" fabrics has happily become an established feature of the Indian textile trade at home and abroad.

The 1967/68 Indian Cotton season brought a welcome improvement with an outturn of nearly 62 lakh bales and some very good quality as well in some of the important varieties. Nevertheless the consequent advantage of reasonably stable prices was insufficient to counter the depression in prices of finished goods to which reference is made elsewhere. On the other hand top quality cottons continued to command high premia, and this reflects undoubtedly the relatively short availability of good class cottons against the increasing demand for quality in fabrics for consumption in India and in cotton goods for sale in export markets. The current 1968/69 Indian Cotton Crop, after initially encouraging signs, is now unlikely to exceed previous levels of about 59 lakh bales, with consequent further pressure on the quality market. It is fervently to be hoped that Government, Industry and Growers will intensify joint activity to promote the improvements in outturn per acre and quality of Indian Cotton without which the great potential of the Industry particularly in the field of export cannot be attained.

As you may have noted from the Balance Sheet, over the past ten years your Mills have spent Rs 11 crores on modernisation and expansion. In the past year we have added 12 imported heavy-duty Automatic Looms to our Industrial Products Mill, and some further balancing machinery to the Bleaching and Dyeing Plant at Ambasamudram. At Madura we installed during the year the necessary plant and equipment for applying water and rot-proof finishes to our fabrics. Under the name "Savnac" these processed fabrics have gained prompt acceptance in the local markets, and we expect very shortly also to develop export markets in this specialised field.

The emphasis of the modernisation programme is now being applied more especially to the Spinning Mills, with the object of improving productivity, and also the quality of the yarns we expect in future to need both for our own use and to sell in the Indian market and overseas against international competition. To ensure the resources to maintain this sharp pace of modernisation and expansion I am pleased to be able to report that the project for issuing additional Debentures, for which your approval was sought at last year's Annual General Meeting, has been carried through. An issue of 7¾% Debenture Stocks for Rs 2 crores repayable during 1981-83 was successfully completed towards the end of 1968.

Last year I spoke of the importance of Labour co-operating with management in measures to increase individual productivity as a result of all this additional expenditure on better machines. After a year in which at times our workers have faced an increase in lay-off with commendable understanding and appreciation of the current difficulties of the textile industry, it is perhaps a little ungracious to return to this theme. But if the vast expenditure on modernisation of machinery in the Mills, which we have been making and want to continue, is to bear fruit, our workers must stand ready to get the best production they can out of the new machines. Of course it is easier to modernise machinery than men.

Existing practices of paying wages on monthly or daily rates, and of paying the major portion of wages as a daily dearness allowance are not easily altered however badly they handicap moves towards productive efficiency. I am sure your management in the Mills recognise that they will have to tackle this problem of relating earnings to productivity with the patience and understanding it requires. But it is my earnest hope that workers and unions will recognise that increased productivity and efficiency is essential if the textile industry in India is not to decay. For the worker himself increased productivity, getting the most he can out of his machine, in terms of quantity and of quality, is the only sure way to higher wages and a higher standard of living.

Despite the difficulties caused by the restricted offtake in 1968, there are most welcome signs that the majority of the workers and their leaders recognise these facts of industrial life. Where resistance has been met, there has been agreement to the appointment of a Technical Assessor to help to determine the work assignment and the appropriate increase in wages. I hope next year to be able to report good progress in this matter of vital importance to all who are concerned with the fortunes of the Mills.

The Company's notice to shareholders dated 27th November 1968 advised you of the intention of the Company, subject to the approval of the shareholders at a General Meeting and the approval of the Central Government, to appoint Mr J. Thomson as a Wholetime Director of the Company on the terms indicated in the said notice. The proposed appointment was to facilitate a smooth change-over from management by Managing Agents, which will end on 31st December 1969, to management by our Board through a Wholetime Director. With a view to ensuring continuity of management your Company's Managing Agents had agreed at our request to let us utilise the services of Mr Thomson as the Company's Wholetime Director, and to permit him to relinquish his office as their Managing Director if his proposed appointment was approved by the Central Government. As Mr Thomson would however continue to be on their Board, the remuneration proposed to be paid to him by your Company would, in terms of Sec. 348 of the Companies Act, form part of the Managing Agency Commission payable by your Company for the accounting year ending 31st December 1969. In consequence, the proposed appointment would not involve your Company in any additional management expenses for the year 1969. For the year 1970, the Managing Agency Commission will cease to be payable since the Managing Agency Agreement will expire on 31st December 1969.

We have been informed that the Central Government are agreeable in principle to the appointment of Mr Thomson as Wholetime Director. As soon as the details are known and settled we will proceed to call the necessary Extra-ordinary General Meeting to seek your approval.

At the end of January 1969 your Board accepted with much regret the resignation of Mr P. C. M. Ganapathy as a Director. This resignation was in consequence of the provisions of the Banking Laws Amendment Act 1968. Mr Ganapathy had been a Director of the Company from 1964, and the Company greatly benefited by his advise and guidance. I know you will wish to join me in expressing our high appreciation of the valuable services rendered by Mr Ganapathy while he was on the Board, and I would add the hope that as a distinguished citizen of Madurai we may count on his continuing interest and assistance in the years to come.

In conclusion I want to express my appreciation of the good work done by Mr J. Thomson, Mr D. E. B. Watson, all Senior Executives, the Staff and Employees of the Company in meeting resolutely the problems of an awkward year. I am confident that there is no Company better placed than ours to seize the chances that will be offered by any revival in the fortunes of the textile industry.

Sd/- M. A. MUTHIAH CHETTIAR

NOTE: This does not purport to be a report of the proceedings of the meeting.

ROURKELA: THE SECOND PHASE

Eastern Economist *has great pleasure in presenting this special feature on the eve of the inauguration of Rourkela Steel Plant's expansion programme by the Vice-President, Mr V. V. Giri, on March 30. Mr K. C. Pant, Minister of State for Steel and Heavy Engineering in the Government of India, has specially written at our request a reappraisal of the Rourkela Steel Plant which he has described as "an ever lasting monument" to the cordial relations between India and West Germany.*

Mr E. F. K. Haubold, Representative of West German Industry in India, has also described in detail the stages through which this plant went and how it is now poised for increasing its capacity on a profitable basis.

Leader in Flat Products

K. C. PANT

WHEN INDIA attained Independence more than 21 years ago, one of the first tasks before the country was to take measures to overcome her economic backwardness as quickly as possible. The strategy of planning was adopted to overcome centuries of stagnation and 1951 saw the launching of the first five-year Plan with its emphasis on agriculture. The success of the first Plan paved the way to a more ambitious second Plan. In the second five-year Plan, the emphasis was shifted to industry and particularly to steel industry. At the end of the first five-year Plan, the annual steel production capacity in India was only 1.5 million tonnes—production mainly coming from the existing Tata Iron and Steel Company, the Indian Iron and Steel Company and the Bhadravati Iron and Steel Works.

The Industrial Policy Resolution laid down that further development of the iron and steel industry should take place mainly in the public sector. The government, therefore, decided to set up three steel plants in the public sector, each with an annual capacity of 1.0 million tonnes (ingot) per year. Rourkela Steel Plant has the distinction of being the first of these three. In fact, even towards the end of the first five-year Plan, a 500,000 tonne ingot steel plant at Rourkela was envisaged with West German collaboration. To manage this plant, Hindustan Steel Limited (HSL) was set up in January, 1954. However, soon after the agreement was signed, it was found that this production target was insufficient to cope with the requirements of rapid industrialisation in the country, and accordingly it was decided to increase the annual capacity of the plant to 1.0 million tonnes and to dispense with foreign financial assistance.

The plant was designed to meet the growing demand of flat steel in the country and has now been expanded to 1.8 million ingot tonnes capacity per year. Flat products form the basic raw material in the ship-building, automobile, locomotive, fabrication and wagon manufacturing industries as well as for the manufacture of domestic appliances, tubes and pipes, dynamos, transformers and defence equipment. Rourkela today meets most of the demands of these industries by producing wide and heavy plates, medium and low hot-rolled plates, hot-rolled sheets and strips, cold-rolled sheets and strips, hot-dipped tin plates, electrolytic tin plates, galvanised sheets, high silicon steel sheets for manufacture of electrical equipment and ERW pipes of large diameters. The plant also has the distinction of being the first plant in Asia to be equipped with the latest LD Process of steel making. While at the million tonne stage, the technical know-how and most of the equipment had to be imported from West Germany, during expansion, considerable amount of material of indigenous manufacture has been utilised in various units. The initial feasibility studies, designs and the entire civil engineering construction work have been carried out by Indian engineers. The detailed project report for expansion was prepared by the Central Engineering and Design Bureau of HSL which also shouldered the responsibilities for overall supervision of construction and commissioning of new units. At the expanded stage, 1.8 million ingot tonnes will be rolled into 1.234 million tonnes of salable products. The principal units forming part of the expansion have been installed and commissioned. The installation of certain other essential facilities such as the hot scarfing machine and its auxiliaries, conversion of dolomite kiln into lime kiln etc., is, however, in progress and is likely to be completed by about the end of this year. The plant which is presently working at the rate of 1.2 million ingot tonnes will produce at the average rate of 1.4 million ingot tonnes during 1969-70, and would reach the full expanded capacity in 1970-71.

In addition, there is at Rourkela one pipe plant which is the largest of its kind in India. This plant with an annual capacity of 1,200,000 tonnes, can produce electric resistance welded steel pipes of various outer diameters ranging from 8⅝" to 20". The plant was set up to meet the growing demand of the oil industry for pipes for transporting oil which were otherwise being imported from abroad.

Rourkela also has one of the largest by-product plants in India designed to recover a very wide range of products including naphthalene, benzene, toluene, etc.

There is also a fertilizer plant at Rourkela which utilises surplus nitrogen from the oxygen plant and hydrogen from the coke oven gas. It is designed to produce 580,000 tonnes of calcium ammonium nitrate, equivalent to 120,000 tonnes of nitrogen per year. This plant had, however, been working much below

its rated capacity on account of deficiencies in the supply of hydrogen. A naphtha reforming plant has, therefore, been installed which would supplement the hydrogen supply in the coke oven gas and will lead to fuller utilisation of facilities in the fertilizer plant. In addition, the by-product plant of Rourkela produces about 20,000 tonnes of ammonium sulphate annually. A plant has also been recently set up for the production of special steel plates for defence requirements.

The requirements of raw materials for the plant are met mainly from its own captive mines. Iron ore comes from mines at Barsua which are completely mechanised. Recently a beneficiation plant was set up at Barsua to improve the quality of ore. Washed coal is received from HSL's coal washeries at Dugda, Bhojudih and Patherdih and also from the Kargali Washery belonging to the National Coal Development Corporation. Limestone is obtained from the plant's fully mechanised quarries at Purnapani and Satna. Manganese ore is brought from nearby mines in Orissa, while dolomite is obtained from Hirri quarry from Bhilai. To make 1.8 million tonnes of ingot steel, the plant needs 2.545 million tonnes of coal, 1.945 million tonnes of iron ore, 1.09 million tonnes of limestone and 0.31 million tonnes of dolomite.

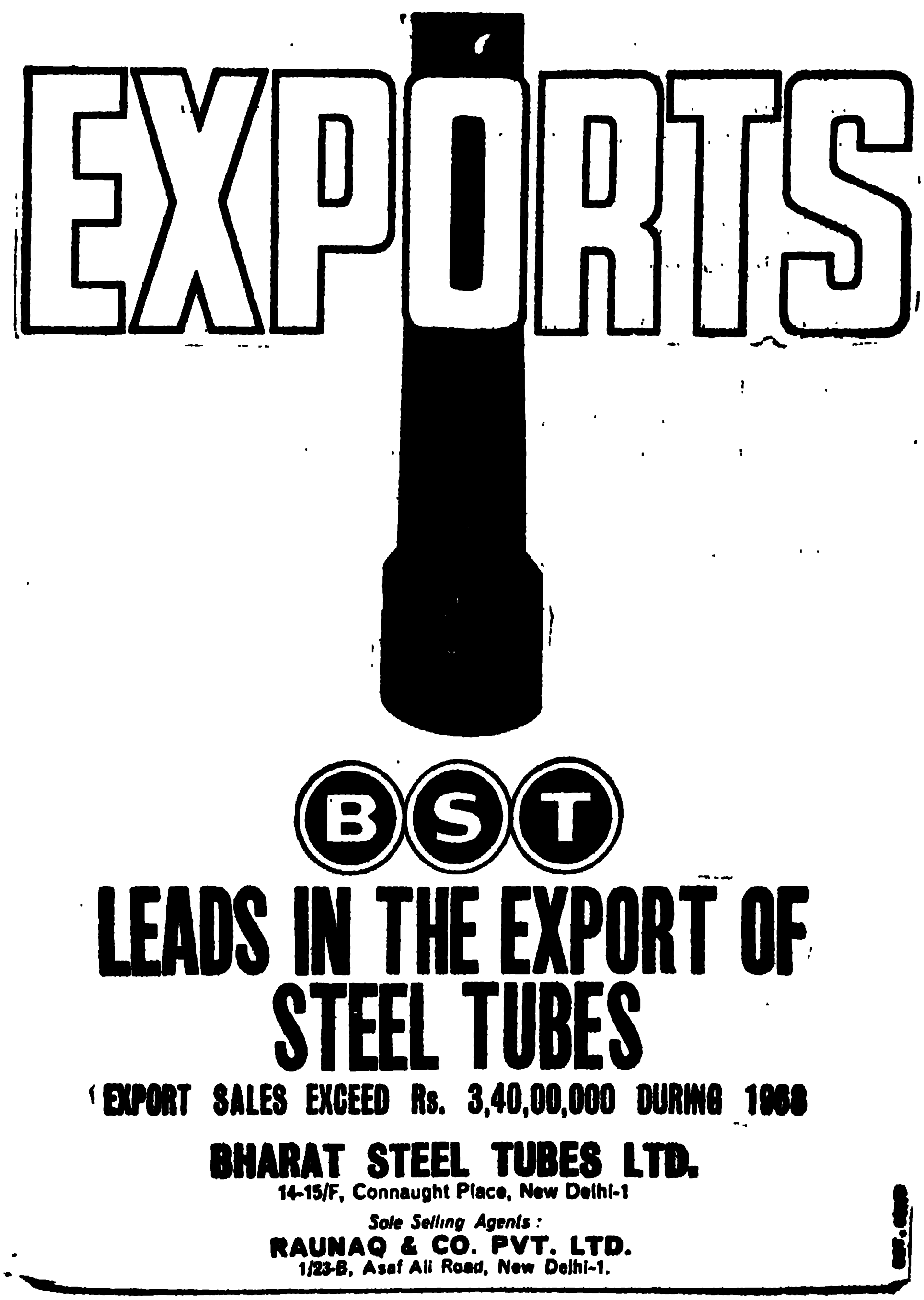
When the government decided to set up three big steel plants simultaneously, one of the biggest problems was how to meet the requirements of a large number of engineers, experienced technicians and managers for the proper operation, maintenance and management of the steel plants. Except for some experienced technicians who could be engaged from other industries, the plant had to depend mostly on fresh engineering graduates and diploma-holders. Arrangements had, therefore, to be made for their training in India and abroad, mostly in West Germany, for the Rourkela Steel Plant. Simultaneously, steps were taken to organise suitable training programmes in the country. A technical institute was, therefore, set up which has training facilities for 2,000 trainees every year in 18 different trades. The institute has so far trained over 6,000 trainees. The facilities at the institute have been availed of by trainees from other countries such as Australia, Germany, Burma, Ceylon, the Philippines, Spain and South Vietnam. Recently, the HSL negotiated an agreement with the Iranian Steel Corporation to train over 500 technicians at the HSL institutes. Some of these trainees would be trained at Rourkela.

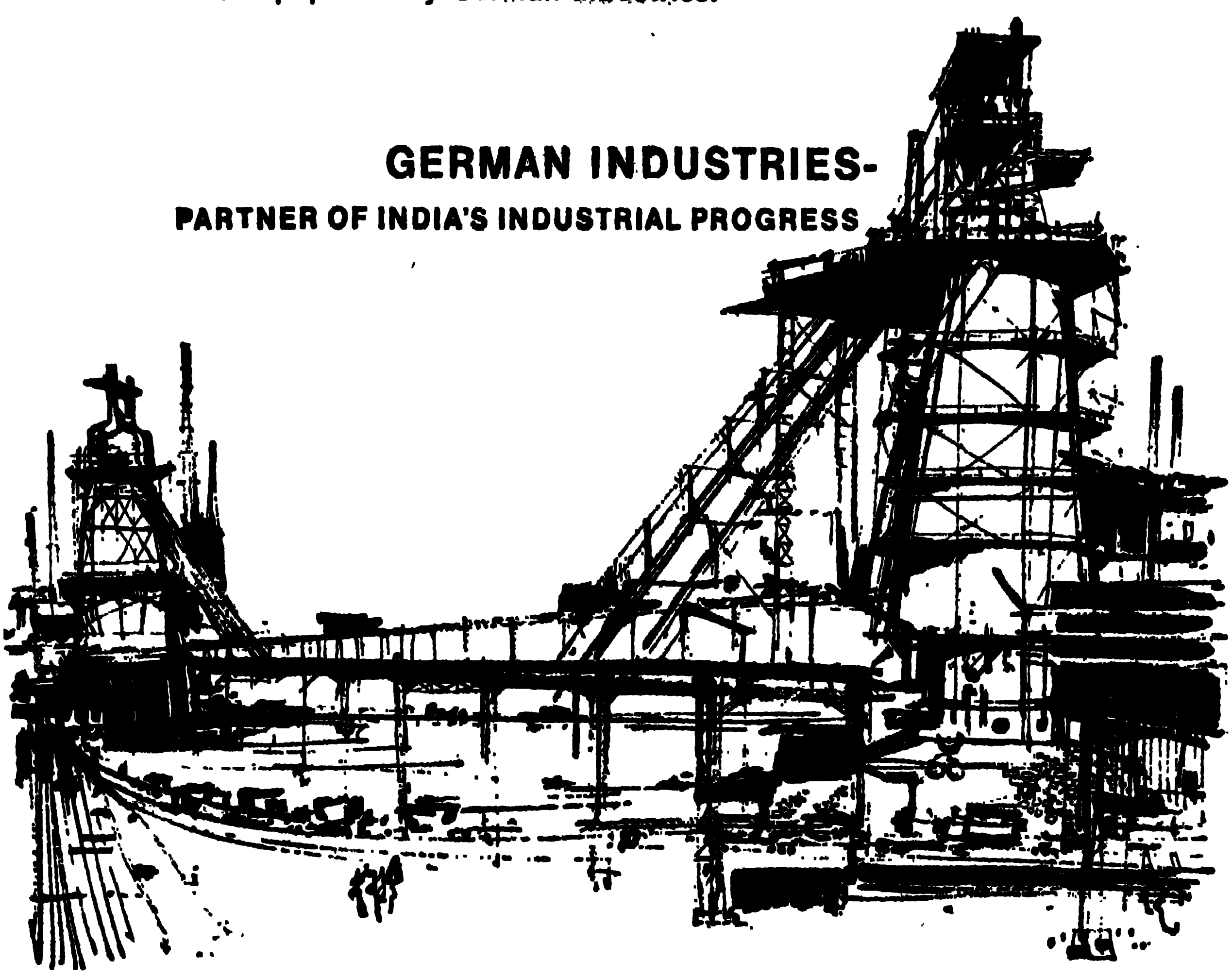
Spread over an area of 48 sq. km., the plant has a modern township with the requisite facilities. Over 18,000 quarters have been built with modern amenities for the convenience of the employees. There is a well-equipped hospital with 480 beds and five health centres. Liberal education facilities have been provided.

West German Help

All this would not have been possible without liberal aid and supply of plant, equipment and technical know-how from West Germany. The total capital expenditure incurred up to March 31, 1968 on the plant including township, mines etc., came to Rs 3807.7 million of which the foreign exchange expenditure accounted for Rs 1812.8 million. The expenditure on the fertilizer plant incurred so far comes to Rs 211.4 million including a foreign exchange component of Rs 87.6 million. The foreign exchange expenditure was largely met from credits extended by the West German government. Apart from financial assistance, India is indebted to West Germany for the supply of plant, equipment and technical know-how. It is one of the gratifying features of this Indo-German collaboration that the West German government has not been content only with these supplies, but has been taking continuing interest in the plant's operational and production efficiencies.

Because of the heavy investment and strategic significance of steel in industrial production, there is a legitimate demand


EXPORTS
BST
LEADS IN THE EXPORT OF STEEL TUBES
EXPORT SALES EXCEED Rs. 3,40,00,000 DURING 1968
BHARAT STEEL TUBES LTD.
14-15/F, Connaught Place, New Delhi-1
Sole Selling Agents :
RAUNAQ & CO. PVT. LTD.
1/23-B, Asaf Ali Road, New Delhi-1.



and expectation that these plants should be managed properly, should work efficiently and generate adequate resources. It is also a fact that in many cases these expectations have not been fulfilled. There has, therefore, been a critical appraisel of the performance of HSL in several quarters, including Parliament and a plethora of suggestions has been made for stepping up production to the rated capacity, checking wastages, reducing the cost of production and increasing the profitability of these plants. Such criticism should not only be welcomed but encouraged so that there is no slackness in constructive efforts at continuing improvements. It is equally necessary that the criticism should be well informed and based on a complete appreciation of the various factors involved.

High Capital Cost

It is not widely known that for various reasons, the capital cost of these plants is considerably high with consequential high capital-related charges. Till March 1, 1964, prices of all categories of steel were controlled and the profit and loss of the steel plants under the HSL was dependent on whether or not the controlled price was adequate consistent with capital investment. These prices had been fixed by the government in 1962 retrospectively from 1960 with reference to the recommendations of the Tariff Commission on a standard block largely based on the block of older plants. The average capital block for salable steel of HSL plants even at the end of the present expansions would be significantly higher. In this scheme of prices, the provision for capital related charges is, therefore, inadequate to cover the actual provision which HSL is obliged to make by virtue of its higher capital block. Although steel prices have been decontrolled from May 1, 1967, the ruling prices are still geared to the price structure originally laid down in 1962 and the government has been reluctant to allow any sharp increase in order to keep steel prices at a reasonable level. It would be of interest to mention that the HSL had till 1967-68 made a total provision of nearly Rs 2,842 million on account of depreciation and had paid to the government interest on the loan capital to the extent of Rs 1,162.90 million.

Another significant factor is that the product patterns of the public sector steel plants are oriented towards developmental requirements of the country and are, therefore, susceptible to any decline in internal demand induced by any slowdown in the rate of economic growth or pause in planning. Recessionary tendencies which came into evidence soon after the Indo-Pakistan conflict in September 1965 led to a sizable shortfall in production and considerable underutilisation of capacity. Rourkela, along with Durgapur, also suffered on account of unsatisfactory industrial relations. Rourkela Steel Plant which had earned profits in 1964-65 and 1965-66 incurred a loss in 1966-67 and 1967-68. For various reasons, the plant will sustain a loss during the current financial year also, but with the revival of economy and of industrial growth and the completion of the current expansion programme, it is looking forward to a much better record of production, despatches and financial results from the year 1969-70 onwards. Management at the plant and at the headquarters of the HSL has in hand a number of remedial measures which should start yielding tangible results from next year onwards. In these efforts, we have also to acknowledge the contribution which is being made by the West German government in arranging for deputation of qualified and experienced technicians to help the Indian engineers to acquire on-the-job skills so necessary in the operation and maintenance of fast-moving and sophisticated finishing mills and for the attainment of rated capacity operations on a consistent basis.

Rourkela Steel Plant would be an everlasting monument to and exemplifies the cordial relations which exist between the people of the Federal Republic of Germany and this country. I have no doubt that similar co-operation and assistance would be forthcoming in the further expansion of the steel industry in the country.

A Case-Study in Indo-German Collaboration

E. F. K. HAUBOLD

THE FORTHCOMING inauguration of Rourkela's expansion to 1.8 million tonnes of steel (ingot) will highlight the performance of a steel plant that has been heavily criticised in its early years, praised for its high efficiency and high profits later on, and which is now poised for a fresh takeoff.

Rourkela II, as this expansion is popularly called, means more sophisticated steel products for India's modern industries, a minimum of 1.24 million tonnes of finished steel every year such as wide and heavy plates, hot rolled sheets, cold rolled sheets, hot dipped tinplates, electrolytic tinplates, galvanised sheets and electrical steel sheets. These are flat products, vital for shipbuilding, containers, boilers, defence purposes, automobile bodies, tube making, refrigerators, airconditioners, packaging and canning industries. Rourkela was the first steel plant in India to be entirely based on flats and will have this distinction for some more years until Bokaro becomes operational.

It all started in 1953 when India had already embarked on the first five-year Plan and the total output of ingot steel was a mere 1.5 million tonnes per year. Tht Government of India asked two West German equipment suppliers, DEMAG and Fried. Krupp to submit a project report for a half-million tonne steel plant. While this was initially a straight investment proposition, the government soon after decided to raise the capacity to one million tonnes and have the new plant in the public sector. Consequently, Hindustan Steel Ltd was established in early 1954, the consulting agreement with DEMAG and Krupp continued, and the site at Rourkela was selected.

Shortly after, Britain offered to set up a steel plant at Durgapur, to be followed by a similar Russian proposal for a plant at Bhilai, each with a capacity of one million tonnes. To this was added the alloy steel plant at Durgapur with Japanese collaboration and thus Hindustan Steel took its present form.

HSL has increased India's steel producing capacity to 9 million tonnes per annum and ranks 24th among the largest steel producers in the world. The situation was quite different from that in 1956, when the first German engineers arrived at Rourkela where Hindustan Steel's first complex was to be located. They had to live in tents and work in temperatures sometimes as high as 50 degrees C in the shade. Water was hard to get, had even to be bought, while Rourkela now consumes 40 million gallons of water every day. What is now a modern steel town with houses and all amenities for 100,000 people, was then a green field area, with no previous industrial background comprising about 30 hamlets inhabited by tribal Adivasis—quite a few of whom have now been trained to handle intricate machinery.

For setting up the integrated steel complex, 366,000 tonnes of West German equipment and machinery were unloaded at Indian ports, mainly Calcutta, and transported by train to Rourkela. Thirty major West German firms and more than 60 Indian civil engineering companies were engaged in construction work and at the peak period about 1,500 German engineers and technicians took part in the erection. After three years, in January 1959, Dr Rajendra Prasad, the then President of India, inaugurated the tapping of iron for the first time at Rourkela.

With this, however, the real problems only began. Lack of co-ordination led to delays in the completion of several units.

The steel plant could not take up full production at the time originally scheduled. In fact, Rourkela was showing all the maladjustment symptoms of a vast and highly sophisticated industrial complex grafted on to a society which was just on the brink of industrialisation. These problems were more marked in Rourkela than elsewhere because the Germans had, among other things, introduced the then very new, more efficient but also more sophisticated and complicated LD-oxygen process of steel making.

When public opinion in India became aware of this, angry questions were asked in Parliament and Rourkela was named the "sick child" of India's young steel industry. Also the German public began to question the wisdom of having supplied the most modern equipment available to a developing country. Reports of the troubles brought a team of West German experts to the spot who succeeded in overhauling production methods improving maintenance and training a considerable number of Indian counterparts. Shortly after, the important breakthrough was achieved. While in 1961-62, the first year of full operation, production of saleable steel was a meagre 186,000 tonnes against a rated capacity of 720,000 tonnes, output jumped to 486,000 in 1962-63. Since then, Rourkela has never looked back. In the following year, production rose to 563,000 tonnes, reached 696,000 tonnes in 1964-65, and exceeding the rated capacity by nine per cent, registered 786,000 tonnes in 1965-66.

Even sceptics now admitted that the original decision by West German firms to supply the most modern equipment and machinery to Rourkela, was a well-founded and farsighted one. The steel complex at Rourkela has the distinction of being the first one in Asia and third in the world which introduced the revolutionary L.D. (Linz-Donawitz) process of oxygen steel making by which steel is made at the rate of one tonne per minute by blowing pure oxygen into the molten bath. Pioneered as early as 1924 by GHH-Gutehoffnungshuette of Oberhausen, it was only after World War II that this process was introduced by Voest of Austria on a commercial scale. From 1.5 per cent in 1958, the share of oxygen steel in world steel production has risen to about 20 per cent today and is expected to reach 30 to 40 per cent in another five or ten years.

Competitive Edge

While this already gives Rourkela a considerable competitive edge, it gains further by having a widely diversified production programme. Its fertiliser plant with a capacity of 580,000 tonnes is probably the largest attached to any steel plant in the world. And its Mannesmann-built pipe plant can manufacture large diameter pipes to API specifications. Most important, however, for the future profit potential of the steel complex is the fact that Rourkela produces flat products only, with a continuous hot strip mill and a tandem mill introduced to India for the first time.

While the demand pattern of steel in the initial stages of a country's industrial development consists mainly of structurals, rails and other merchant products, it gradually changes as more sophisticated machineries, cars, refrigerators, airconditioners and the like are required. This change increases the demand for flat products. In fact, in most of the industrialised countries, flat products contribute to nearly 70 per cent of the total steel production.

This, clearly, is the main reason for Rourkela's rather unique economic position for the years to come: it will not face any dearth in demand. The future demand pattern was also the main consideration when the expansion of the steel plant's capacity from 1 million to 1.8 million tonnes was decided upon. Rourkela II therefore does not involve an addition to the existing hot rolling mills but concentrates on expansion of the cold rolling capacity, thus enabling it to produce even more sophisticated flat products in future.

Rourkela II includes a number of units that are new not only in India but to Asia as well: a five-stands tandem mill (built by Siemag), twin-stand skin pass mill (by DEMAG of Duisburg), electrolytic tinning line (DEMAG) and two continuous galvanising lines. While most of the motors and drives for these huge rolling mills were supplied and installed by AEG-Telefunken, the other large electrical combine of West Germany, Siemens AG, was responsible for the new power plant, a Rs. 43 million project to increase the capacity from 75 MW to 125 MW. On the steelmaking side, a new blast furnace, fourth in a row, with a capacity of 1,500 tonnes per day was added by GHH-Gutehoffnungshuette. Fried. Krupp and Voest built two new converters for the steelmelting shop with a capacity of 60 tonnes each.

The 1.8 million tonne plant has cost India Rs 3700 million, including mines, township and infrastructure. The entire foreign exchange requirements were met by West German government loans, amounting to 660 million D-marks for the first stage, and 400 million D-marks for the second stage. There is no doubt that this joint venture lent considerable impetus to the development of industries of both India and West Germany. To a number of German firms it brought the largest single orders they ever received and the number of German subsuppliers is estimated at about 3,000. Equally important is the fact that this expansion to a great degree utilised indigenous sources, Indian design organisations and Indian steel.

Boost to Industries

Thus, while Rourkela gave a considerable boost to Indian engineering and construction industries, it has also transformed the economy of one of the most backward regions in India. The tribal population living within hundreds of miles of the plant has immensely benefited from both expansion programmes. Spread over an area of 13,656 acres, what is probably the best industrial township in India houses about 100,000 people, 31,000 of whom are directly employed with the steel plant, its mines or the fertiliser factory. The steeltown has a modern 400-bed hospital and all educational facilities, including an engineering college and a large HSL-owned training institute.

With its rather sophisticated product mix, Rourkela from the very beginning was in a position to contribute to India's efforts on the export front. Hot rolled coils from Rourkela have been exported to the USA, pipes to New Zealand, Australia and the west Asia and pig iron to Japan. Only recently the plant has developed a new quality steel for manufacture of frigates. While in 1967-68 the total export of Hindustan Steel was Rs 310 million, it will be over Rs 400 million in 1968-69. Rourkela alone contributes Rs 200 million to the national exchequer by way of excise and customs duties.

While the profit picture over the last two years was not at all satisfactory, due mainly to labour unrest, shortcomings in maintenance and problems arising out of the need to coordinate an existing plant with new expansion units, all is now set at Rourkela for a fresh takeoff. The plant already in December last year registered another record production, hopes to reach about 1.6 million tonnes of ingot steel by the end of this year, thus assisting HSL in raising its entire output of finished steel by 27 per cent during 1969-70. Considering the fact that the plant breaks even at about 80 per cent of the rated capacity, the estimate that Rourkela will earn a profit to the tune of Rs 10 million by the end of 1969-70 seems to be not over-optimistic.

Present indications are that the management would try to stabilise production at the 1.8 million tonne level and considers this the most immediate task. Both Indian and German engineers at Rourkela are, however, of the opinion that production of ingot steel can easily be raised to 2 million tonnes or even 2.2 million tonnes by addition of some balancing equipment like continuous casting, oil injection for blast furnaces and increased use of sinter feed. Beyond this, the plant at Rourkela can be expanded up to about 4.5 million tonnes capacity and still be an integral complex. And it is rather safe to assume that this will happen in due course.

Trade Winds

SELF-SUFFICIENCY IN FERTILIZER

DR TRIGUNA Sen, Minister for Petroleum and Chemicals and Mines and Metals, while addressing the general managers of all the units of the Fertilizer Corporation of India, stated that indigenous talent and technology should be utilised to the maximum extent possible in planning, development and production of fertilizer in the country. The fertilizer units in the public sector should achieve full-rated capacity in the earliest possible time and self-sufficiency in the production of fertilizer should be achieved by the end of the fourth Plan, he added. To meet the requirement of raw materials like rock phosphate and gypsum, he stated, fresh regions should be explored speedily by the Geological Survey of India. Already, he added, we have been able to find very good deposits of rock phosphate in the Rajasthan region, particularly Udaipur. The availability of new mineral resources would help in cutting down the cost of fertilizer. The minister also intends to meet the producers of fertilizer in the private sector to bring about better co-ordination between the two sectors.

COAL-BASED FERTILIZER PLANTS

It has been decided to examine quickly the feasibility of setting up three coal-based fertilizer factories in the public sector with a total annual installed capacity of 684,000 tonnes in terms of nitrogen. The sites under consideration are Korba (Madhya Pradesh), Ramagundam (Andhra Pradesh) and Talcher (Orissa). Besides, there is a proposal to set up a coal-based plant near Kamptee in the private sector. All the factories will use coal as raw material. The entire demand for coal for the factories will be met by the collieries already developed nearby. The planning, designing, engineering, procurement, construction and commissioning of the plants in the public sector will be done by the Fertilizer Corporation of India with the help of engineers from within the country. The Planning and Development Division of the Corporation is expected to play an important role in this programme. The present installed capacity of nitrogen in the country is 1.02 million tonnes. By the end of the fourth five-year Plan, the total capacity of the current schemes is likely to raise the production of nitrogen to 2.60 million tonnes against the expected demand of 5.15 million tonnes of nitrogen, leaving a gap of 2.54 million tonnes. The coal-based plants will help substantially in bridging the gap.

Recently, a team of experts visited some foreign countries to examine the economies of coal-based technology. The team visited Turkey, West Germany, Spain and the United Kingdom and had discussions on different systems of coal gasification. The experts have recommended adoption of the Koppers Totzek process for coal gasification as it is eminently suitable for production of synthesis gas for ammonia. The process is readily adaptable to a variety of solid fuels with varying coking characteristics, ash contents and ash melting points. The team has concluded that the plants based on this process are not difficult to erect and maintain. The expected scarcity of naphtha and the availability of indigenous coal, therefore, made it necessary to consider planning part of additional fertilizer capacity based on coal. Each of the three coal-based plants will have an annual capacity of 2,28,000 tonnes in term of nitrogen. Roughly, the cost of each plant would be Rs 70 crores with a foreign exchange component of Rs 20 crores.

NATIONAL CREDIT COUNCIL

The National Credit Council, a policy-making body in regard to credit policy, recently recommended the liberalisation of credit for small operators in the transport trade. The council also proposed that commercial banks should open branches in all towns with a population of 10,000 and over by 1970. These decisions were taken in pursuance of the recommendations of study groups set up by the council. Another policy direction from the council was that banks should expand their involvement in the retail trade and also give greater attention to the credit requirements of the small-scale industries. It recommended that credit to small-scale road operators should be treated on lines similar to credit to small-scale industries. Such credit is likely to be extended not only to bus and taxi operators, but also scooter operators. So far, operators have had to rely on hire-purchase companies.

KESORAM'S CELLOPHANE FOR SYRIA

Kesoram Rayon shipped a token 9-tonne consignment of cellophane to Syria on March 21. This is the first time that we are sending cellophane to that country. Mr K. K. Khemka president, Kesoram Rayon, said the Syrian order was won against severe competition from industrialised countries of the west and Japan. Kesoram could develop a big overseas market provided the meagre 10 per cent subsidy was increased to 40 or 50 per cent, he said. The cost of production was so high that this company had to sell 9 tonne at a price below Rs 50,000 which within the country would fetch Rs one lakh. If the government gave 50 per cent subsidy the company would be in a position to earn foreign exchange amounting to one crore rupees.

SPUN PIPE EXPORTS

Kesoram Spun Pipes and Foundries has secured foreign orders worth Rs 1 crore. Recently, the company also bagged orders worth Rs 45 lakhs from Tanzania and Ceylon against stiff global competition. The company has already executed Rs 60 lakhs of total export orders secured. The Cast Iron Spun Pipe Manufacturers' Association has sent a proposal to the Government of India on export. It has suggested that five delegations at intervals may be sent to various developing countries which are expanding their water supply schemes. In May, a government-sponsored delegation is scheduled to tour West Asia and African countries.

MORE TEA FOR U.A.R.

The UAR will raise the ceiling for import of our tea during the year ending June, 1969. This was announced by Dr Hady El-Maghraby, UAR Deputy Minister for Supply and Home Trade, when he met Mr B. R. Bhagat, Minister for Foreign Trade, recently in New Delhi. The stepping up of trade between the two countries, possibilities of exporting more of our non-traditional items to the UAR and prospects of joint ventures were the main features of the talks.

DUTY ON BELTING

In a representation made to the Finance Ministry, the Rubber Belting Manufacturers' Association of Delhi has pointed out that the proposals to reduce the percentage of rubber compound from 40 to 25 for the purpose of calculation of excise duty on rubber belting and to change the excise levy on grey canvas (an important component of rubber belting) from specific to ad valorem basis will wipe out the small-scale sector in this line of manufacture. As a result of the first proposal, there will be left hardly any unit whose products will not attract excise duty. The Association has estimated that the net effect of the changes proposed by the Finance Minister in the excise levy on grey canvas and finished belting will be to raise the incidence of indirect taxation to 33 per cent of the value of beltings. Besides the 15 per cent excise and three per cent special duty on the finished product, the various raw materials that go into the manufacture of beltings have to bear excise burden to the following extent: grey canvas 16.25 per cent ad valorem, rubber 30 paise per kg. (cess), zinc oxide and titanium dioxide Rs 238 per 1,000 kgs; solvent oil Rs 501 per 1,000 litres; and processing cotton fabrics 15 paise per sq. metre. In addition to this, rubber beltings are liable to local

sales tax at the rate of five per cent and central sales tax at the rate of 10 per cent from unregistered dealers and three per cent from registered dealers. The association feels, that every small-scale producer of belting if he has to remain in business, will have to find resources ranging from one lakh to three lakhs of rupees payable by manufacturers in the first instance. The recovery from the consumers takes place only after the sales are effected. Arranging of such large funds may not be possible for most small-scale units in the present tight money conditions.

TECHNO-ECONOMIC TEAM TO MAURITIUS

This country proposes to send a team of techno-economic experts to Mauritius to decide what industries should be set up there, the Minister for Foreign Trade, Mr B. R. Bhagat, revealed recently. He indicated that the Mauritius government welcomed the participation of foreign investors, including those from this country, in their local industries. So far only one firm had submitted an application to set up a unit in Mauritius to manufacture marble mosaic tiles and rolling shutters. The government had approved the proposal. Mauritius had offered permission for the transfer of dividends and repatriation of foreign capital invested in Mauritius; an assurance that the Mauritius government would not compete with any industry which may be set up by private entrepreneurs; provision for the imposition of protective tariffs, where needed, and exemption from customs duty on the import of raw materials for approved industries. From our government, the entrepreneurs would be eligible for import replenishment against machinery exported as part of their equity participation, as admissible under the rules. Mr Bhagat added that this country was anxious to develop economic and other relations with Mauritius. He confirmed that a textile manufacturer was trying to set up a mill in Mauritius. The application from the party would be considered when it was received.

MARKETING SURVEY IN EUROPE

The Indian Council of Foreign Trade, Bombay, has proposed to sponsor a six-man delegation of marketing executives, representing engineering, chemical and textile industries to east European countries to explore the possibilities of stepping up exports. The membership of the team is being finalised. The delegation is expected to leave in May. Mr Manubhai Shah, President of the Council suggested the formation of a small committee to investigate matters like export incentives and the setting up of the incentives pool.

PRICES OF FOODGRAINS

The recommendation of the Agricultural Prices Commission to reduce the procurement prices of wheat by 9 per cent for the coming season and the budget proposals to tax sugar and fertilisers and other items were criticized by Members of Parliament at a meeting of the Informal Consultative Committee attached to the Ministry of Food, Agriculture, Community Development and Co-operation, held recently.

Some members also expressed the fear that the cumulative effect of these measures might prove a disincentive to the farmers who are at the moment engaged in stepping up production. They pleaded the case for increasing the procurement prices of foodgrains and other agricultural products. At any rate, they added, the prices should not go down below the last year's level as the cost of production and prices of inputs including labour were going up in a steep way.

Replying to these suggestions, Mr A. P. Shinde, union Minister of State for Food, Agriculture, Community Development and Co-operation indicated that it was the policy of the government to give incentive and remunerative prices to the farmers. It was this assurance of handsome returns to the primary producers that proved a great incentive for higher food production in the last three years. He assured the members that all the factors would certainly be taken into consideration by the chief ministers when they meet in the capital on April 3 for considering the proposals of the Agricultural Prices Commission regarding the procurement target and prices of rabi cereals.

WORLD STEEL OUTPUT

World steel production increased by 55.3 per cent between 1960 and 1968 and now amounted to 530 million tonnes annually, according to the West German Industries Institute. Leading other countries in steel production was again the United States which produced 123.5 million tonnes last year, an increase since 1960 of 34.4 per cent. The second largest steel producer was the Soviet Union whose mills turned out 106 million tonnes an increase of 62.6 per cent during the whole period.

VANASPATI PRICES

Vanaspati prices have been revised with effect from March 23, 1969, due to a rise in the price of groundnut oil in the last 15 days, according to an official release. The maximum retail prices of vanaspati in the different pack-sizes, and when sold loose, exclusive of sales tax and other local taxes, will be as under:

Zone	16 kg	4 kg	2 kg	Loose per kg
North	78.70	20.79	10.85	4.77
South	76.39	20.23	10.57	4.63
East	78.06	20.60	10.77	4.73
West	76.45	20.24	10.58	4.63

U.S. AMBASSDOR

Former Senator Kenneth B. Keating will soon be nominated by President Nixon to become US Ambassador to this country. The 68-year-old liberal Republican was a Congressman for 18 years until he was defeated by the late Senator Robert F. Kennedy in a contest for a Senate seat from New York in 1964. He served 12 years in the House of Representatives before becoming a senator in 1958. Mr Keating is now an Associate Justice of the New York State Court of Appeals. He spent three years in this country during World War II as a colonel.

NATIONAL INCOME OF JAPAN

Japan's gross national product amounted to 43,116,700 million yen (US $119,800 million) for the fiscal year 1967, showing an increase of 17.5 per cent over the preceding year. During the fiscal year 1968, the gross national product has been estimated at 50,570,000 million yen (US $140,500 million). The gross national product during the fiscal year 1969 is expected to reach 57,860,000 million yen (US $160,700 million) showing an increase of 14.4 per cent over 1968 in nominal terms and 9.8 per cent in real terms.

Japan's per capita income will be the highest in the world well before the end of this century, according to a statistical survey conducted by the Finance Ministry of Japan. It was predicted that Japan will overtake Sweden in per capita income with a figure in excess of $14,439 by 1992. The survey suggested that Japan could possibly pass Sweden as early as 1988 if all goes well with the nation's economy. Herman Khan, director of the Hudson Institute in the US, recently reported that Japan would rank first in per capita income by the year 2001.

MILL FOR MIGRANTS

The union government has sanctioned a sum of Rs 10.7 lakhs to the Government of Uttar Pradesh for being advanced as loan to M/s Madan Industries Ltd. The amount is to be utilised for setting up a spinning mill at Hastinapur as a measure towards rehabilitation of new migrants from East Pakistan and repatriates from Burma and Ceylon. Under the terms and conditions of the loan the company will recruit all unskilled workers and as many skilled and semi-skilled workers as possible, from amongst the above mentioned categories sponsored by the government.

Company Affairs

BANK OF BARODA

THE BANK of Baroda Ltd during the year ended December 31, 1968 recorded a turnover of Rs 22.05 crores as against Rs 19.35 crores during the previous year. Of this, income from interest and discount amounts to Rs 19.09 crores. Earnings on account of commission and brokerage is slightly higher at Rs 2.90 crores as against Rs 2.60 crores last year. As against this the bank paid interest on deposits and borrowings amounting to Rs 11.75 crores. The bank's profit, subject to provision for bonus to staff, is slightly higher at Rs 92.80 lakhs compared with Rs 92.16 lakhs in 1967. Its deposits crossed the Rs 300-crore mark and amounted to Rs 314 crores at the end of 1968, against Rs 275 crores at the end of 1967. Its advances increased by Rs 21 crores to Rs 196 crores. During the year, the bank opened 28 branches, raising the total number of branch offices to 332. The directors of the bank have proposed that the term of Mr N. M. Chokshi as its chairman be extended from June 30, 1969 to October 31, 1969. They also recommended that Mr M. G. Parikh, general manager, should officiate as chairman when Mr Chokshi avails of his leave and proposed to appoint him chairman when the latter retires.

E.I.D.—PARRY

Mr H. V. R. Iengar, Chairman, E.I.D.—Parry Ltd, in a statement circulated to shareholders on the occasion of the annual general meeting of the company to be held on March 31, 1969, indicated that net profit of the group before taxation for the year 1968 was highest for the last several years and nearly 35 per cent higher than last year. Net profit during 1966 was Rs 123.49 lakhs, during 1967 as much as Rs 200.30 lakhs and during 1968 it was over Rs 269 lakhs. The factors that helped in the achievement of increased profit were improvement in the prices of sugar as a result of permission to sell a part of the production in free market, increased returns in the ceramics division and additional income from shipping and clearing services. He added, however, that certain items of expenditure recorded a sharp increase such as interest charges for increased working capital, administrative expenses and liberalised pay scale structure introduced last year for the clerical and subordinate staff. He pointed out that requirements of working capital increased particularly because of the handling of fertilisers produced by Coromandel. Mr Iengar indicated that in spite of the drought conditions in the areas where the company supplied fertilisers, it was possible to maintain a lead and the company increased its business over the previous year to the extent of 20 per cent.

In the context of sugar, Mr Iengar stated that the company factories were being asked by the authorities, under pressure from the growers, to pay a larger price than the minimum cane price which remained the same as last year—Rs 73.30 per tonne. He added that the industry did not grudge the payment of reasonable returns to cover the cost and normal risks that went with agriculture, but unfortunately the industry was being asked to pay to the grower most of the gains derived from the consumers. Mr Iengar revealed that output of sugar at Nellikuppam factory during the year 1968 was 44,910 tonnes, showing an increase of 25 per cent over the previous year's production of 35,954 tonnes.

Mr Iengar stated that the company had certain schemes for examination to widen the scope of its operations and one of these was the basic manufacture of insecticides. The company did not succeed in getting know-how from abroad but the chairman added that a laboratory process had been developed in the Central Food Research Laboratory at Mysore, but the extent to which this could be exploited was not clear to the company. Mr Iengar further stated that the company had already put up two seed processing units in Tamil Nadu which had started operations. The company also was putting up a cattle feed manufacturing unit which was expected to go into production during the current year at Ennore. The directors were also actively investigating several other projects, he added.

COROMANDEL FERTILISERS

Dr Bharat Ram, Chairman, Coromandel Fertilisers Ltd, indicated at the annual general meeting held recently that the first year of the company's operation was marked by considerable success in the working of the plant at Visakhapatnam though it was marred by irregular electric supply, transport bottlenecks and failure of monsoon in the area marketed by the company.

The Chairman stated that the output of urea began after the plant at Visakhapatnam was inaugurated by the Deputy Prime Minister, Mr Morarji Desai, on December 10, 1967 and soon output of complex 28-28-0 fertiliser was started in February 1968. Within a few months the unit started operating at about 80 per cent of its capacity. In view of the fact that Coromandel's principal marketing area was affected by drought, the sales fell short of original forecasts. The result was that stocks had to be carried over beyond the main plantation period, he added. Promotional programmes by the company and sales efforts by E.I.D.—Parry created popular acceptance of Gromor. The chairman indicated that the company will continue to focus its sales promotion programme in the state of Andhra Pradesh, although certain adjoining areas will also be exploited for this purpose. To facilitate sales and to avoid fluctuations, increased field warehousing was undertaken so that fertilizers could be supplied to the cultivators at the time of requirement from locations near their farms.

Dr Bharat Ram indicated that the union government had issued a letter of intent to Coromandel in connection with the expansion programme. Progress in this direction had, however, been delayed for several reasons including the need to analyse operating characteristics of the existing units. The issue was being studied in order to determine the feasibility of expansion and diversification of the present unit at Visakhapatnam.

CANARA BANK

Mr K. P. J. Prabhu, Chairman, Canara Bank Ltd, revealed in a statement issued at the annual general meeting held recently that the bank had recorded all round improvement in its performance during 1968. Total deposits of the bank increased from Rs 126.56 crores to Rs 146.44 crores at the end of 1968. Advances also increased by nearly 20 per cent to reach a figure of Rs 96.72 crores. This improvement by the bank was achieved by expanding its sphere of influence through increased number of branches. The company opened a record number of 33 new branches, during the year 1968, of which 16 were in small rural centres and five in semi-urban centres. In as many as 17 places there were no banking facilities available previously. New branches were also opened in places such as Agra, Jamshedpur, Indore and Faridabad. The bank tried to keep down costs at certain places by opening one-man banking offices. The bank also experimented by opening a branch in a centrally-located village to cater to the banking requirements of a group of selected villages around through visiting representatives. The chairman also indicated that during the year Pangal Nayak Bank Ltd, Udipi, came into its fold under an agreement of voluntary take-over of its selective assets and outside liabilities. The Canara Bank.

he added, acquired 22 additional branches as a result of this take-over.

Mr Prabhu pointed out that the bank took several measures during the year to improve its credit assistance to the preferred credit sectors. In the first place, it liberalised lending terms to small-scale industries by reducing margin requirements for both term finance and working finance. The bank also commenced granting hypothecation advances to deserving units so that their production programmes were not hampered in their attempt to obtain key loans against stock. Moreover, the branch managers were vested with wide discretionary powers to make advances to small industries without prior reference to head office. The bank also strengthened its field staff for on-the-spot study for the needs of the small-scale units.

The chairman stated that the bank adopted a similar approach in the rural areas, showing more interest towards farmers. The bank experienced that more and more farmers were making use of loan services for tractors, reclamation of land, building of farm sheds, purchase of bullocks, setting up of ancillary occupations such as poultry and dairy. The bank, he added, had been granting gold loans on liberal terms, particularly to cultivators. It was felt that these loans, apart from being seasonal in character, reduced dependence of farmers on village money lenders and thereby made the farmers progressively bank-minded. The bank had also started its agricultural finance unit which had already sanctioned more than 1,466 loans to the extent of Rs 1.82 crores. He further stated that a scheme of loans for purchase of vehicles such as cars, scooters and motor bicycles to eligible borrowers had been devised. In this manner, the bank had tried to expand its areas of operation to prove useful to a large number of clients.

HINDUSTAN LEVER

Hindustan Lever recorded a substantial increase in the sales of its main products during 1968, but the turnover dropped marginally from Rs 93.28 crores in 1967 to Rs 92.59 crores in 1968 due to lower average selling prices, reflecting lower raw material costs. Profit after tax and after charging capital expenditure on scientific research improved from Rs 200 lakhs in 1967 to Rs 216 lakhs in 1968. New projects completed during the year included a perfumery chemicals manufacturing unit, extension to its research centre at Bombay and animal feeding stuffs plant at Ghaziabad and Tiruchirapalli. The directors propose to recommend to the annual general meeting a final dividend of 80 paise per share, subject to deduction of tax, thus maintaining the total dividend at the 1967 level of Rs 1.40 per share.

COCHIN REFINERIES

The Cochin Refineries Ltd, a public sector undertaking, has declared its maiden dividend. Out of the current year's profit, the company has allocated Rs 147 lakhs for payment as dividend to the shareholders and transferred Rs 29.8 lakhs to the general reserve. The company paid a bonus of 10 per cent to the workers in 1966-67 and 16⅔ per cent in 1967-68. The dividend represents 21 per cent return on the equity investment. The gross dividend to the government works out to Rs 77 lakhs, to the Government of Kerala Rs 10.50 lakhs and to Phillips Petroleum Company Rs 38.80 lakhs. A cheque of Rs 77 lakhs was recently presented to the Minister for Petroleum and Chemicals and Mines and Metals, Dr Triguna Sen, by the Managing Director of the Cochin Refineries Ltd, Mr C. R. Pattabhiraman. The Cochin Refineries made a profit of Rs 336.12 lakhs in the second year of its operation in 1967-68. In the previous year, the company's net profit before tax was Rs 110.7 lakhs which was transferred to the development rebate reserve. The refinery proposes to embark on expansion of its capacity from the present 53,500 barrels to 70,000 barrels per day by the middle of 1972. The Cochin Refineries has been set up as a collaboration between the union government, Phillips Petroleum Company of the USA and Duncan Brothers to process about 2.5 million tonnes of crude oil per annum. The refinery went on stream in September, 1966 and has been in commercial production since May, 1967.

SYNTHETICS & CHEMICALS

The Firestone Tire and Rubber Co., which holds 25 per cent of the paid-up equity capital of Synthetics and Chemicals Ltd, called an informal meeting of the shareholders of the latter company in Bombay on March 21 to discuss with them the issue of the company's sole selling agents. Firestone felt that it was unnecessary for the company to have any selling agents and that it would be economical and efficient to handle sales through its own organisation. It was opposed to the renewal of the appointment of Kilachand Devchand and Co. Private Ltd as the sole selling agents of the company.

J. K. COTTON

J.K. Cotton Spinning and Weaving Mills Co. Limited, proprietors of J.K. Rayon and J.K. Electronics, are issuing 25,000 (10 per cent) cumulative redeemable preference shares of Rs 100 each at par. The subscription list will open on March 25 and close on April 1 or earlier but not before March 31. The amount will be utilized for financing the company's television project. The company has been issued an industrial licence for the manufacture of 10,000 television sets a year. It will be expanded further in due course. It has made arrangement with the National Research Development Corporation of India, New Delhi, for the necessary know-how developed by the Central Electronics Engineering Research Institute, Pilani. The factory will be located at Kanpur.

BAYER (INDIA)

Bayer (India) Ltd has recorded a gross profit of Rs 17.63 lakhs during 1968 against a loss of Rs 3.38 lakhs for the previous year in the wake of an increase in sales to Rs 4.20 crores from Rs 2.77 crores. The outlook for the current year is fair with the company expecting a total turnover of Rs 6 crores. Out of the profit, the board has provided Rs 46.84 lakhs for depreciation and Rs 11.10 lakhs for development rebate reserve with the result that the year's accounts show a net loss of Rs 40.30 lakhs. The total deficit of Rs 164.09 lakhs, including the loss of Rs 123.78 lakhs brought in, has been carried forward. The company's rubber chemicals and pharmaceutical divisions have achieved progress during the year with a rise in both production and sales. The pesticides division, however, had a disappointing year mainly because of the change in the government's purchase policy. The sales of pesticides, which amounted to Rs 1.65 crores in 1968, are expected to rise to about Rs 2.20 crores this year.

PHILIPS INDIA

The directors of Philips India Ltd have proposed a final equity dividend of 10 per cent for the year ended December 31, 1968. Together with an interim dividend of 10 per cent already paid, the total distribution for the year is 20 per cent (Rs 2 per share of Rs 10 each) against 19 per cent for 1967. The company's sales have increased from Rs 23.40 crores to Rs 26.55 crores. Its working has resulted in a pre-tax profit of Rs 4.58 crores against Rs 4.35 crores in the previous year. After providing Rs 3.05 crores for taxation and Rs 7 lakhs for development rebate reserve, the net profit works out at Rs 146 lakhs. After providing Rs 10 lakhs for debenture redemption reserve and payment of interim dividend of Rs 36.40 lakhs and after writing back Rs 7.55 lakhs from development rebate reserve, there is a disposable amount of Rs 107.07 lakhs, which has been transferred to general reserve. The final dividend, absorbing Rs 36.40 lakhs, will be paid out of the general reserve. The total dividend amount for 1968 will be Rs 72.80 lakhs.

Amsterdam—where eating herring is an art

Tokyo—with its impressive tea ceremony

RECORDS AND STATISTICS

ESTIMATES OF NATIONAL INCOME

(At Current and Constant Prices)

Year	Net national product** (Rs crores)		Per capita net national product (Rs)		Index number of net national product (1948-49=100)		Index number of per capita net national product (1948-49=100)	
	At current prices	At 1948-49 prices	At current prices	At 1948-49 prices	At current prices	At 1948-49 prices	At current prices	At 1948-49 prices
1948-49	8650	8650	249.6	249.6	100.0	100.0	100.0	100.0
1949-50	9010	8820	256.0	250.6	104.2	102.0	102.6	100.4
1950-51	9530	8850	266.5	247.5	110.2	102.3	106.8	99.2
1951-52	9970	9100	274.2	250.3	115.3	105.2	109.9	100.3
1952-53	9820	9460	265.4	255.7	113.5	109.4	106.3	102.4
1953-54	10480	10030	278.1	266.2	121.2	116.0	111.4	106.7
1954-55	9610	10280	250.3	267.8	111.1	118.8	100.3	107.3
1955-56	9980	10480	255.0	267.8	115.4	121.2	102.2	107.3
1956-57	11310	11000	283.3	275.6	130.8	127.2	113.5	110.4
1957-58	11390	10890	279.6	267.3	131.7	125.9	112.0	107.1
1958-59	12600	11650	303.0	280.1	145.7	134.7	121.4	112.2
1959-60	12950	11860	304.8	279.2	149.7	137.1	122.1	111.9
1960-61	14140	12730	325.7	293.2	163.5	147.2	130.5	117.5
1961-62	14800	13060	333.6	294.3	171.1	151.0	133.6	117.9
1962-63	15400	13310	339.4	293.4	178.0	153.9	136.0	117.5
1963-64	17210	13970	370.9	301.1	199.0	161.5	148.6	120.6
1964-65(P)	20430	15000	430.4	316.0	236.2	173.4	172.4	126.6
1965-66(P)	20340	14660	418.8	301.8	235.1	169.5	167.7	120.9
1966-67(Q)	23120	14950	465.2	300.8	267.3	172.8	186.4	120.5
Annual growth rate during								
First Plan	0.9	3.5	—0.9	1.6				
Second Plan	7.3	4.0*	5.1	1.8*				
Third Plan	7.5	2.9	5.2	0.6				

(P) Preliminary Estimates. (Q) Quick Estimates.

** National Income.

* The estimates of production of foodgrains from 1959-60 and those of sugarcane from 1960-61 are not strictly comparable with those for the earlier years. Adjusted for such statistical changes, the annual increase in total national income and in per capita income during the second Plan period works out to 3.8 per cent and 1.7 per cent respectively.

GROSS NATIONAL PRODUCT AND NET NATIONAL PRODUCT

(Revised series)

Year	Gross national product (Rs crores)		Net national product (Rs crores)		Per capita net national product (Rs)		Index number of net national product (1960-61 Base)		Index number of per capita net national product (1960-61 Base)	
	At current prices	At 1960-61 prices	At current prices	At 1960-61 prices	At current prices	At 1960-61 prices	At current prices	At 1960-61 prices	At current prices	At 1960-61 prices
1960-61(P)	14010	14010	13274	13274	305.0	305.0	100.0	100.0	100.0	100.0
1961-62(P)	14879	14582	14069	13797	316.0	309.9	106.0	103.9	103.6	101.6
1962-63(P)	15832	14950	14902	14069	327.0	308.7	112.3	106.0	107.2	101.2
1963-64(P)	18114	15792	17122	14881	366.9	318.9	129.0	112.1	120.3	104.6
1964-65(P)	21196	16919	20087	15943	420.2	333.5	151.3	120.1	137.8	109.3
1965-66(P)	21771	16037	20573	15039	420.0	307.0	155.0	113.3	137.7	100.7
1966-67(P)	24999	16247	23651	15206	471.2	302.9	178.2	114.6	154.5	99.3
1967-68(P)	29342	17632	27901	16559	542.3	321.9	210.2	124.7	177.8	105.5
Annual growth rate during										
Third Plan	9.2	2.8	9.1	2.5	6.6	0.1				

(P) Figures are provisional.

PROFILE OF GROWTH IN INDUSTRY

Industry	1960-65 average annual growth rate (per cent)	Percentage growth in the year over preceding year		
		1966	1967	Jan.-Sept. 1968* (provisional)
Machinery except electrical	27.8	+18.0	+ 6.2	+10.6
Manufacture of wood and cork except furniture	27.0	−14.2	+ 8.2	− 1.7
Metal products	21.1	+ 1.9	− 8.3	− 8.3
Electrical machinery	20.9	+10.0	+ 8.2	+10.4
Transport equipment	20.9	−19.5	−11.9	+ 0.6
Electricity generated	18.2	+ 8.9	+11.0	+16.0
Basic metals	16.0	+ 3.6	− 4.4	+ 5.9
Mfg. of footwear and other wearing apparel and made up textile goods	13.9	+ 8.7	+ 5.5	+ 2.6
Rubber products	11.9	+ 0.5	+ 7.0	+12.2
Petroleum products	11.4	+24.9	+19.6	+11.0
Chemicals	10.8	+ 8.3	+ 3.3	+ 8.6
of which:				
Fertilizers	10.5	+ 7.1	+26.5	+25.8
Synthetic fibres	14.8	+ 4.2	+14.3	+ 6.5
General Index	**10.2**	**+ 1.0**	**− 0.5**	**+ 5.6**
Non-metallic mineral products	9.8	− 0.1	+ 4.5	− 1.2
of which:				
Cement	7.0	+ 4.6	+ 2.1	+ 3.5
Beverage and tobacco industries	9.5	+ 7.7	− 6.0	+ 7.8
Paper and paper products	9.4	+ 8.8	+ 4.4	+11.4
Mining and quarrying	6.3	+ 4.1	− 0.9	+ 4.9
Food mfg. industries	4.5	+ 3.5	−12.2	− 3.0
Leather and fur products (except footwear)	4.5	− 1.5	− 3.0	−11.8
Mfg. of textiles	3.0	− 5.1	− 1.2	+ 7.2
of which:				
Cotton textiles	2.3	− 4.6	− 1.5	+ 9.6
Woollen textiles	7.3	− 5.0	− 5.5	+ 9.9
Jute manufacture	4.1	−16.5	+ 3.7	− 3.6

* Percentage rise or fall over January-September 1967.

CONSENTS FOR CAPITAL ISSUES

(Rs crores)

	1961	1962	1963	1964	1965	1966	1967	1968(P)
Consents granted by the CCI for the issue of capital*								
(i) All companies	248.0	381.5	544.3	392.3	275.8	460.4	234.6	143.2
(a) Industrial	220.6	346.3	463.5	335.8	232.7	397.8	208.8	128.7
(b) Others	27.4	35.2	80.8	56.5	43.1	68.6	25.8	14.5
(ii) (a) Government companies	62.9	162.1	306.7	167.5	109.3	181.7	2.4	5.8
(b) Non-government companies	185.1	219.4	237.6	224.8	166.5	284.7	232.2	137.4
(iii) (a) Bonus	10.4	13.5	10.9	4.1	4.9	147.0	47.9	33.6
(b) Others (including initial, further, debentures and loans)	237.6	368.0	533.4	388.2	270.9	312.3	186.7	109.6
(iv) (a) Residents	213.8	326.4	417.9	322.2	191.5	374.3	171.9	107.6
(b) Non-residents	34.2	55.1	126.4	70.1	84.3	92.1	62.7	35.6
Capital raised against such consents by companies in the private sector**	101.4	108.3	94.5	95.2	102.6	78.6	84.8	56.1

* Figures from 1967-68 onwards are not strictly comparable with those of the preceding years on account of the changes made under the Capital Issues (Exemption) Order, 1966. Under this order, all issues of capital, other than the issues of bonus shares, by private limited companies, issue of capital by government companies which does not include an offer to the public, and banking and insurance companies have been exempted from the provisions of Sections 3, 4 and 5 of the Capital Issues (Control) Act. As regards public limited companies, those satisfying certain laid down financial criteria have to obtain only a "No objection" from the Controller of Capital Issues, and no specific consent is required. A specific consent is needed only if any departure from the established criteria is involved. "No objections" were issued from 4-11-1966 onwards, and figures of consents thereafter include "No objections".

** Calendar years; comprises equity, preference and debenture capital. P: Provisional.

ASSISTANCE SANCTIONED AND DISBURSED BY FINANCIAL INSTITUTIONS

(Rs crores)

Name of Institution	1961-62 Sanc-tioned	1961-62 Dis-bursed	1962-63 Sanc-tioned	1962-63 Dis-bursed	1963-64 Sanc-tioned	1963-64 Dis-bursed	1964-65 Sanc-tioned	1964-65 Dis-bursed	1965-66 Sanc-tioned	1965-66 Dis-bursed	1966-67 Sanc-tioned	1966-67 Dis-bursed	1967-68 Sanc-tioned	1967-68 Dis-bursed
IFC	26.7	8.3	21.1	16.2	35.1	20.5	24.6	20.1	45.9	27.1	21.7	31.2	20.8	23.9
ICICI	15.8	7.0	19.3	10.3	23.3	11.4	23.1	17.0	29.6	25.3	18.1	22.6	15.3	20.4
IDBI	...	..	...	...	...	...	21.3	18.7	66.8	35.3	57.9	49.8	27.9	41.6
State Financial Corporations	13.3	9.0	19.8	12.0	18.1	13.8	22.7	14.2	25.3	18.0	21.7	18.2	19.8	16.2
State Industrial Development Corporations	...	...		.	..	..	2.5	1.3	1.7	1.4	2.6	2.5	2.4	2.1
National Industrial Development Corporation	4.8	2.5	2.7	3.5	...	2.3	..	1.5	...	0.8	...	0.7	...	0.4
Unit Trust of India	...	...	...	...	...	.	8.9	7.7	2.2	1.8	5.2	3.0	8.4	5.7
LIC														
(a) Private sector†		10.5*		18.8**		14.9		15.2		23.9		9.5		10.1
(b) Co-operative sector		2.9*		11.7**		9.8		10.7		12.4		15.7		18.6

Notes: 1. Except in the case of LIC figures are on a financial year basis (April—March). Data relating to LIC are for financial years only from 1963-64 onwards.

2. In the case of IFC and ICICI figures from 1965-66 are on post-devaluation basis.

3. Prior to the institution of the IDBI, the Refinance Corporation for Industry had given refinance facilities of the total value of Rs 65.5 crores since its inception in 1958 to August 31, 1964, of which the refinance disbursed totalled Rs 42.2 crores. During the period July, 1964 to June, 1965, the IDBI, which took over the RCI, disbursed refinancing facilities of Rs 21.2 crores.

4. Data in respect of SIDCs relate to six SIDCs for the years 1966-67 and 1967-68. † Relates to debentures, preference shares and ordinary shares in the private sector only. * Calendar year. ** Refers to the period 1-1-1962 to 31-3-1963.

NET AVAILABILITY, PROCUREMENT AND PUBLIC DISTRIBUTION OF FOODGRAINS

Year	Net production of foodgrains	Imports	Net availability of foodgrains@	Procurement	Public distribution	Col. 3 as % of col. 4	Col. 5 as % of col. 2	Col. 6 as % of Col. 4
	Million tonnes					Percentage		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1951	48.05	4.80	52.26	3.83	7.99	9.2	8.0	15.3
1952	48.57	3.93	51.88	3.48	6.80	7.6	7.2	13.1
1953	53.96	2.04	56.48	2.09	4.60	3.6	3.9	8.1
1954	63.16	0.84	63.80	1.43	2.15	1.3	2.3	3.4
1955	61.78	0.71	63.24	0.13*	1.64	1.1	0.2	2.6
1956	60.57	1.44	62.61	0.04	2.08	2.3	0.1	3.3
1957	63.29	3.65	66.08	0.30	3.05	5.5	0.5	4.6
1958	58.20	3.22	61.69	0.53	3.98	5.2	0.9	6.5
1959	68.85	3.87	72.23	1.81	5.16	5.4	2.6	7.1
1960	67.11	5.14	70.85	1.28	4.94	7.3	1.9	7.0
1961	71.76	3.50	75.43	0.54	3.98	4.6	0.8	5.3
1962	72.37	3.64	76.37	0.48	4.37	4.8	0.7	5.7
1963	70.13	4.56	74.71	0.75	5.18	6.1	1.1	6.9
1964	70.56	6.27	78.07	1.43	8.67	8.0	2.0	11.1
1965	77.87**	7.46	84.27	4.03	10.08	8.9	5.2	12.0
1966	63.02**	10.36	73.24	4.01	14.08	14.1	6.4	19.2
1967**	64.96	8.67	73.87	4.47	13.16	11.7	6.9	17.8
1968**	83.64	5.65	87.58	6.60	10.50	6.5	7.9	12.0

* Includes purchases under Price Support Scheme. ** Provisional.

@ Net Availability=Net production + Net imports + Change in government stocks.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